

European steel
Can the rescue plan
be rescued?



Personal computing
An invasion heads
for the home

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Oil in Nigeria
Disputes put
revenue at risk

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Danish food
An appetite for
world markets

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FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY JUNE 7 1994

D8523A

Philip Morris acts against Australian ban on advertising

Philip Morris, US cigarettes, food and brewing giant, launched a High Court action in Australia, seeking to overturn the country's ban on cigarette advertising on the grounds that it denies "commercial freedom of speech".

Tobacco advertising became illegal in Australia last year. The country will also phase out cigarette sponsorship of sporting events by the mid-1990s unless exemptions are obtained. Page 18

South Korea steps up state of readiness: South Korea took emergency steps to guard against a possible military response by North Korea in the dispute over nuclear inspections. Page 18

Sara Lee Corporation, US food and personal products company, is to take a \$45m after-tax charge against earnings in its fourth quarter for a worldwide restructuring effort. Page 19

Veterans gather on Omaha beach: Veterans and international leaders gathered on Omaha beach, the most notorious of the five Normandy landing points because of heavy US casualties, for the closing ceremony of the D-Day commemorations. Page 18

SIPC puts off flotation: British Printing Company, the UK's largest commercial printer, postponed its planned flotation and said it was now unlikely to seek a stock market listing before the end of the year. Page 20; Lex, Page 18

160 die in China air crash: A China Northwest Airlines Tupolev-154 on a flight from the tourist centre of Xian to the southern city of Guangzhou crashed shortly after takeoff, killing all 160 people on board. Page 5; China air space row, Page 4

France-US plastics venture: Union Carbide of the US and Elf Atochem of France, part of Elf Aquitaine, are to create a joint venture in France for the manufacture of specialist plastics. Page 4

El Al sale reassured: The Israeli government announced plans to sell off 51 per cent of El Al, the national airline, by the end of the year, with the remaining 49 per cent to be disposed of later. Page 5; Swiss chief gives pledge on ownership of Carlton. Page 18

Smiths pays \$150m for US medical group: Smiths Industries, UK aerospace and healthcare group, is paying \$150m for Deltec, a US medical equipment manufacturer owned by Pharmacia of Sweden. Page 20

Electricidade de Portugal: state-owned power utility, is to be split into 10 enterprises and electricity production and distribution is to be partially privatised. Page 18

Dutch telecoms shares price: A first tranche of shares in Koninklijke PTT Nederland, state-owned Dutch postal and telecommunications operator, will be floated next week at F149.75 a share, valuing the company at F12.5bn (\$12.3bn). The price is slightly higher than many analysts had predicted. Page 19

Thailand's Imperial Hotels sold for \$132m: Thailand's Imperial Hotels Group has been sold to Charoen Sirivatwanavadi, one of the country's richest men, in a deal which values the company at \$132m. Page 22

Arms pour into Turkey and Greece: The arsenals of Turkey and Greece, nominal Nato allies whose chronically tense relations have come under fresh strain in recent weeks, are being upgraded at an unprecedented pace, an independent study shows. Page 3

Norway in gas deal with France: Norway announced a 20-year contract, valued at Nkr500m (\$6.9bn) at current prices, to supply natural gas to France. Page 4

UK car registrations rise 10%: New UK car registrations in May were up 10 per cent year-on-year to 150,070 as demand rebounded from the impact of tax increases in April, the Society of Motor Manufacturers and Traders said. Page 6

BAA to double airport investment: BAA, the privatised UK airports group, announced plans to double capital spending to £1.4bn (\$2.1bn) over the next three years after reporting a 13 per cent rise in annual pre-tax profits to £32m. Page 18; Lex, Page 18; £1bn Heathrow outlay planned. Page 24

Stagnant incomes for top accountants: Five of the UK's "Big Six" accountancy firms experienced virtually stagnant fee incomes and cut staff sharply in the last year, figures released yesterday show. Page 20

■ STOCK MARKET INDICES

FT-SE 100: 3,604.4 (-11.9)

Yield: 4.1%

FT-SE Bankex 100: 1,418.51 (-15.23)

FT-SE All Share: 1,615.81 (-0.49)

Midex: 2,672.65 (-227.54)

New York Composite: 2,783.89 (-11.38)

S&P Composite: 461.09 (-0.67)

■ US LUNCHTIME PATES

Federal Funds: 4.75%

3-mo T-bill rate: 4.725%

Long Bond: 8.61%

Yield: 7.214%

■ LONDON MONEY

3-mo Interbank: 5.14% (same)

Libs long gilt rate: 7.15% (up 0.53)

■ MONTH-SEA CBL (Argus)

DM: 15.15 (up 16.15)

Y: 15.15 (up 16.15)

■ Gold

New York Comex: \$382.50 (up 3.2)

London: £371.00 (up 1.38)

Delors retreat boosts prospects for summit

By Lionel Barber in Luxembourg

Mr Jacques Delors, president of the European Commission, yesterday staged a tactical retreat over his plans to launch "Union bonds" to finance the multi-billion dollar transport, telecommunications and energy projects known as trans-European networks.

In a further conciliatory gesture, Mr Delors agreed to a German plan to set up an independent panel of experts to study barriers to deregulation on condition that it examined both EU and national laws.

The compromise on deregulation cools

a potentially damaging row between the Commission and an Anglo-German alliance favouring tighter controls on Brussels legislation.

As a result of the two agreements a meeting of EU finance ministers in Luxembourg ended on a positive note, boosting prospects for a harmonious European summit in Corfu later this month. But there is still a risk of a show-down between EU heads of government over who should succeed Mr Delors as head of the Commission.

Arguments over financing of the trans-European networks quickly evaporated at yesterday's session in Luxembourg.

Mr Delors stated at the outset he was unwilling to press the case for Commission borrowing on the capital markets to fill an alleged "financing gap" of around Ecu1bn (\$5.8bn).

The UK, Germany, the Netherlands and Italy all made clear that they wanted strict appraisal of the feasibility of the networks, a point echoed by Sir Brian Unwin, president of the European Investment Bank, which is expected to provide the bulk of capital.

Sir Brian said: "I will not express any views on whether there needs to be a new financial instrument, but the EIB is ready to do very much more in financial

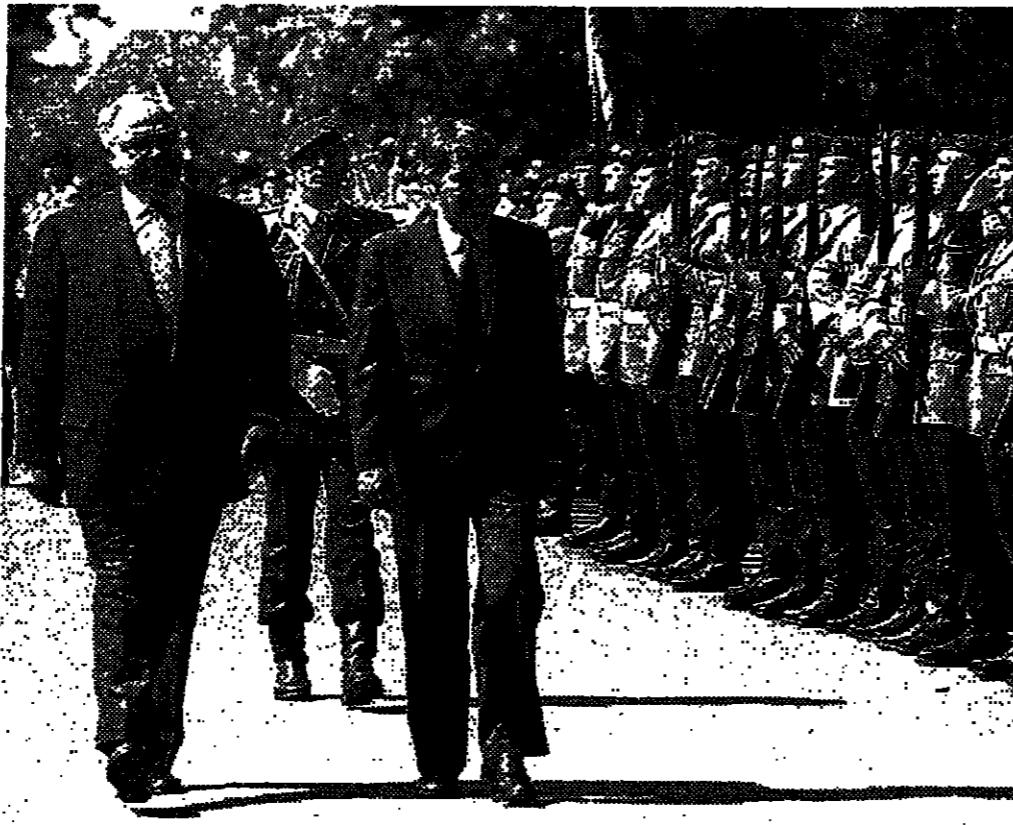
networks. The EIB can raise very large financing for sound projects."

A working group headed by Mr Henning Christensen, economics commissioner, has identified 10 priority projects. These include high-speed rail links from Paris to Strasbourg, and Munich to Berlin; a rail-road tunnel through the Brenner pass in Italy; and motorway routes between Lisbon and Valladolid in Spain.

Mr Delors, who views the networks as vital for improving European competitiveness and creating jobs, said he hoped work could start on January 1 1996. He remains adamant, however, that the private sector and the EIB alone cannot raise enough capital.

Under the new deal on deregulation, a panel of experts will not only scrutinise existing European Union laws, but will put member states under the microscope in recognition that most labour market law is at national level. "This way we have dealt with Mr Delors' complaint that the Commission was being turned into a scapegoat," said one diplomat.

The panel is likely to include academics, businessmen and civil servants from member states with a remit to produce a report by 1995.



March past: Chancellor Helmut Kohl of Germany (left) and Spanish prime minister Felipe Gonzalez inspect the guard of honour at Schwerin in east Germany. The two leaders were in the town for Franco-German talks yesterday on co-ordinating European Union policies. A news conference is planned for this morning

Picture: PA

Boost from US demand and European exports

Stronger growth in industrial nations forecast by OECD

By Peter Norman, Economics Editor, in Paris

The Organisation for Economic Co-operation and Development has revised upwards its projections of economic growth in the industrialised world this year to reflect stronger than expected US expansion and improved European exports.

The organisation, which last night released highlights of its latest forecasts ahead of today's annual meeting of OECD ministers in Paris, now expects industrial countries will grow by 2.6 per cent this year, half a percentage point more than in its last forecast.

Its projections, which do not

include Mexico, which joined the OECD last month, suggest that the 24 longest-established member states will achieve overall growth of 2.9 per cent next year, up slightly from 2.7 per cent forecast six months ago.

Officials said the upward revision reflected the effects of strong US growth in the final quarter of last year, better than expected exports from Europe, and the Japanese government's economic stimulation package of February.

The organisation expects a robust 4.4 per cent increase in US

expects GDP growth of 1.8 per cent this year compared with 0.8 per cent previously. While exports are expected to be buoyant, Germany's domestic demand is expected to increase by only 1 per cent this year and 2.2 per cent next year.

German GDP is projected to grow by 2.6 per cent next year compared with the 2.2 per cent forecast last December.

The OECD disclosed slight upward revisions to its projections for Japanese growth. It expects Japan's economy will expand 0.8 per cent this year, against 0.5 per cent previously, and 2.7 per cent in 1995.

The OECD forecasts a continuing divergence of employment trends between the US and Europe. It expects average unemployment in the US to drop below 6 per cent of the labour force next year, while in Europe it is expected to average nearly 12 per cent.

Inflation, as measured by the US GDP deflator, is expected to decline in Europe and be broadly steady in Japan over the next 18 months, but is forecast to quicken in the US to 3.1 per cent by the end of 1995 from 2.1 per cent.

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Editorial Comment, Page 17

Unilever hits back as detergents battle heats up

By Tony Jackson in London and Ronald van de Krol in Amsterdam

The wrangle over Unilever's revolutionary new detergent showed no sign of easing yesterday as the Anglo-Dutch giant claimed sharp increases in UK market share despite accusations from a rival that it damages clothes.

But in the Netherlands a leading supermarket chain said it was considering whether to stop stocking the product.

The detergent, launched across Europe last month under various brand names such as Persil Power and Omo Power, has been attacked as harmful to clothes by manufacturer Procter & Gamble.

Unilever said yesterday that Persil Power's share of the total UK detergent market had jumped from 7 per cent to 10 per cent in recent weeks. Its UK share of the fast-growing market for concentrated detergents, in which Unilever has lost ground to Procter & Gamble in recent years, is estimated to have risen from about 20 per cent to 30 per cent.

Mr Andrew Seth, chief executive of Unilever's UK detergents business, said this was a larger and faster increase than the company had expected.

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There have been reports in the media that the product is not reliable, but it is only fair and

Sprint and EDS to continue talks after merger fails

By Martin Dickson in Kansas City and Andrew Adonis in London

Sprint, the US telecommunications group, and Electronic Data Systems, the world's largest computing services company, said yesterday that they had abandoned negotiations for a \$30bn merger but were still exploring other forms of strategic relationship.

The merger talks failed because of a disagreement between the two sides over the value of the new business, while Sprint demanded 1.3. EDS seems to have been surprised at the premium demanded by Sprint in what had been billed a "merger

of equals". However, some Wall Street analysts said yesterday that a deal at 1.1 ratio could have meant a 10 to 15 per cent dilution in Sprint earnings per share, while a 1.3 ratio might have added to first year earnings.

Sprint, the third largest US long-distance operator, is believed still to be seeking an alliance with a European telecommunications group to further its international ambitions. It has been in talks with the French and German state telecoms operators, but the discussions do not appear to have influenced the failure of the EDS deal.

Sprint, based in Kansas City, Missouri, declined to confirm or deny the European discussions. But one source claimed yesterday that European partners had been looking at a significant equity investment in Sprint or the combined Sprint/EDS group.

One European analyst said: "Sprint needs an alliance to be credible outside the US: but it needs a cash injection if it is to go anywhere, which makes a Franco-German link up very

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NEWS: EUROPE

Nato arms pour into Greece and Turkey

By Bruce Clark,
Defence Correspondent

The arsenals of Turkey and Greece, nominal Nato allies whose chronically tense relations have come under fresh strain in recent weeks, are being upgraded at an unprecedented pace, according to an independent study.

Last year alone, Turkey received a total of 1,617 main battle tanks – almost as much as the entire holdings of the British army – from the US and Germany, while Greece took delivery of 725, the study shows.

Figures on the two countries' arms imports were extrapolated by researchers in Britain, the US and Germany from the United Nations

Register of Conventional Arms, which has been tracking the weapons trade since the beginning of 1982.

They indicate that total deliveries to Greece and Turkey in 1992-93 from Germany and the US included 2,322 tanks, 1,084 armoured combat vehicles, 303 large calibre artillery systems, 28 attack helicopters and 14 warships.

The statistics were compiled by the British American Security Information Council and the Berlin Information Centre for Transatlantic Security. Both are independent lobby groups that promote disarmament.

A spokesman for the Stockholm Institute for Peace Research, another arms trade watchdog, said its researches also pointed to a heavy

flow of armaments to Greece and Turkey.

Most of the deliveries were made free of charge under a programme known as Cascade, under which the smaller Nato countries can receive weapons from allies who are obliged to slash their arsenals under arms control agreements.

Even though much of the equipment being transferred is second-hand, it represents a huge improvement over existing Greek and Turkish stocks.

Most of the tanks involved have been US-built M-60s or German Leopards, both of which carry much more sophisticated electronic equipment than the M-48 which has been a mainstay of both armies until recently.

During the cold war period, the leading Nato members worked energetically behind the scenes to put some limit on the intensity of Greek-Turkish rivalry, but this effort has now slackened.

An initiative to promote confidence-building measures among the countries of southeastern Europe – launched in Vienna under the aegis of the Helsinki process – was quietly abandoned after one meeting in March, diplomats say.

Greece and Turkey now find themselves sympathising with opposite sides in former Yugoslavia, with Turkey one of the strongest supporters of Bosnia's Moslem leadership and Greece a traditional friend of the Serbs.

Relations between Athens and Ankara have deteriorated in recent days following allegations in the Turkish media that supporters of the Kurdish insurgency which has claimed around 15,000 lives in eastern Turkey were trained in Greece.

Without directly blaming the Greek government, the Turkish authorities have pointedly drawn the attention of several western governments to these reports.

The Greek government has angrily rejected the allegations, and the Athens media have quoted a Kurdish prisoner in Turkey as saying, in a message smuggled out of jail, that his account of training in Greece was extracted under duress.

Montell plastics venture may go to court

By Emma Tucker in Brussels and Daniel Green in London

Challengers to a \$3bn (22bn) plastics joint venture between Anglo-Dutch company Royal Dutch/Shell and Italy's Montedison are likely to take the European Commission to the European Court of First Instance, one step below the European Court of Justice, if it approves the final decision on the fiercely contested case is likely to be given tomorrow. The Commission is expected to give its approval after having considered concessions put forward by Montedison and Royal Dutch/Shell that they say will limit the strength of the joint venture.

But the deal's main challengers – principally US-owned Union Carbide – are not satisfied that the undertakings will prevent the joint venture, Montell, from dominating the European polypolypropylene market and hindering competition.

"There is a lot at stake," said one observer of the case. "The complainants would have to consider their position."

The challengers to the Montell deal argue that concessions – hastily presented by Montedison and Royal Dutch/Shell to the Commission last week – do not answer the objections raised by the Commission in the first place. An advisory committee to the Commission last month recommended that the deal be blocked. It is understood that their objections related to the prospect of a near monopoly on polypolypropylene technologies.

The creation of Montell would be one of the biggest of a series of joint ventures and asset sales in the European chemicals industry in the last two years. Manufacturers are restructuring to cope with recession and strong new competitors in eastern Europe, the Middle East and east Asia.

Montell would be easily the world's biggest polypolypropylene manufacturer. Thanks to a separate arrangement between Shell Oil, the US arm of the company, and Union Carbide, it would also give Shell control over two of the most important polypolypropylene manufacturing technologies.

A decision by the contestants to continue the challenge in the European Court of First Instance would be an unusual step.

The Commission has only rarely been challenged, the best known case being when Air France challenged British Airways' acquisition of UK airline Dan Air. Earlier this year, the court rejected Air France's appeal against the European Commission's finding that British Airways' acquisition of Dan Air was outside the scope of the European Merger Regulation.

Hungary looks down the Polish road

Warsaw's economic moves are attracting interest as a role model in Budapest, write Christopher Bobinski in Warsaw and Anthony Robinson in London

As Hungary prepares for the return of a Socialist government, Polish voters are finding that, nine months after their own elections, the Socialist-led Polish coalition government has delivered little in the way of economic pain-relief.

On the contrary, the Socialist finance minister, Mr Grzegorz Kołodko, has promised to press ahead with reforms which will cut welfare spending and focus social and pension payments more closely on the truly needy. At the same time he has promised to tighten the struggle against inflation and strengthen the institutional underpinning of the capitalist economy through the development of investment and pension funds.

Market reformers in Hungary's Socialist party, led by Mr László Bekési, its economic spokesman, would like a Socialised Hungarian government to follow similar policies. But the overall majority given to the Hungarian Socialists at the second round of voting last month means that the party will be under much stronger pressure from rank-and-file voters to deliver on its electoral promises to ease the economic pain.

Unlike Hungary, whose conservative post-Communist government decided to honour its inherited foreign debt obligations to the letter, Poland's former Communist government refrained on its official debt in the early 1980s and the first post-Communist government did likewise on its eventual \$20bn bank debt shortly after taking power. Now the new Socialised Polish government is benefiting from Paris and London Club debt reduction and rescheduling accords.

International bankers believe one of the risks inherent in the Hungarian election result could be pressure from below for the new government to follow Poland's example and seek some form of debt relief, a temptation absolutely rejected by Hungarian governments in the past.

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Prime minister Waldemar Pawlak of Poland: tough measures in store in new economic plan

Thanks in part to its impeccable credit record Hungary has been the biggest recipient of foreign equity capital, more than \$7bn since 1989. The new government will be extremely reluctant to put future flows at risk by changing its attitude to foreign creditors. But past borrowing has left the incoming government with a \$25bn gross debt burden on the country's just over 10m inhabitants and a heavy repayment schedule. It therefore has less room for manoeuvre than the Polish government, but will probably be under greater pressure to satisfy demands for improvements in standards of living than the Polish government where responsibility is shared between coalition partners and economic growth is raising incomes across a broad front.

Lower debt payments, and shock therapy reforms begun in 1990, helped Poland achieve a return to economic growth by 1993 while Hungary is still struggling to resume steady growth. Warsaw expects growth to continue at 4.5 per cent a year over the next two years and possibly accelerate if, as expected, foreign investment increases.

As long as Poland's coalition partners, the PSL farmers party and the post-Communist SLD stay together, they have time to push through controversial reforms of the welfare system and still run for re-election successfully in 1997, hence their willingness to continue with tough measures now.

The Polish government's economic plan for the next four years, to be unveiled in parliament shortly, includes cutting the link between pensions and average wage rises for 7m senior citizens and switching the indexing formula to a less generous inflation-linked system. It also tightens the criteria for disability pensions and unemployment benefits.

The government's strategic choice to go for the long haul and avoid short-term palliatives has disillusioned many voters but cost little in real political capital. The coalition's

refusal to ease monetary and fiscal policies which it hinted at but never actually promised during the election campaign has caused the protest vote that swung it into power to evaporate. Its core support is still there but the government is now viewed by the mass of voters as differing little from that which ran the country after 1989 when the Communists slipped from the stage with barely a whimper.

The failure of an attempt by the Solidarity trade union now back in opposition to get a general strike under way in April left the government feeling confident that it could ride out future discontent as it awaits the economic upswing that is to translate into tangible improvements for the man in

the street.

The benefits of tough financial and monetary policies are already becoming more apparent. For a start, Polish unemployment is beginning to fall. Registered unemployed have fallen for two months in succession to 2.9m or 13.7 per cent of the workforce, while industrial output in the first four months of the year was running 10 per cent higher than in the same period last year.

Corporate profits are also improving as productivity grows and costs come under control. Industrial companies earned 9,000bn zlotys (£265m) net in the first three months of the year compared to a 1,138bn zloty net loss in the same quarter of 1993. Foreign currency reserves, at more than \$4bn, also continue to grow, even though the country registered a payments deficit of \$432m in the first quarter as exports continued to lag behind imports, producing a trade deficit which the government expects to continue until 1997 at least.

Meanwhile, the budget deficit remains under control and inflation is falling to an expected annual rate of 25 per cent this year, down from 35 per cent in 1993. This has allowed the bank to lower base interest rates by a point or two last month. This has left the NBP confident enough to press ahead with introducing a "hard zloty" next January. The changes will erase four zeros so that one US dollar will no longer be worth around 25,000 but only 2.5 zlotys.

Critics of the Polish government, however, question its performance and argue that the positive outcome of the past nine months is the result of the policies of previous Solidarity coalition government led by Mr Hanna Suchocka. They fear that the present government, led by Mr Waldemar Pawlak from the PSL farmers party and sensitive to protectionist and other claims from the powerful farmers' lobby, will sooner or later turn to more inflationary policies.

With an economic slowdown likely and the devaluation, officials expect a cut in imports. With tourism revenues about the same as last year, officials are projecting a balanced current account in 1994. On the capital account, as long as Turkey is able to roll over existing lines, the government expects zero net

borrowings this year. "We don't think it's in the interests of the foreign lenders to go to a rescheduling instead of keeping their trade lines open," says Mr Nectari Ozifir, head of the state planning organisation (SPO).

With \$4.7bn worth of medium- and long-term principal maturing in 1994, Turkey is looking to some \$3.7bn of new drawings this year. Direct foreign investment is projected at \$600m. Portfolio investment, which includes both privatisation receipts and planned sale of convertible stock in PTT, the state-owned telecommunications company, is targeted at \$2.1bn. The SPO is forecasting a \$3.5bn net short-term capital outflow, as Turkish banks and corporations reduce their foreign

exchange exposure following the lira's 50 per cent fall against the dollar. The change in official reserves, now at just \$3.4bn, or less than two months' import cover, is projected at \$2bn.

Mr Tansu Çiller, prime minister, announced the \$1.2bn Gulf defence fund – Arab and US funds lodged in the Bank of New York to finance Turkey's F-16 fighter aircraft programme – is to be transferred to the Turkish central bank, boosting reserves. Turkey is also looking at credits from the Council of Europe's social fund, and is calling for the release of the European Union's fourth financial protocol, an aid package for Turkey which Greece is blocking in an attempt to wring concessions on the Cyprus dispute.

EUROPEAN NEWS DIGEST

Papers prosper in electronic era

Newspapers continue to thrive across Europe despite increased competition from the electronic media, according to Pira International, the printing industry research organisation. Its report shows that, overall, newspapers maintained the largest share of advertising revenue in western Europe and generated total revenues in 1992 (the last year when figures are available) of \$36bn (£26bn). During 1992 more than 92m newspapers were bought every day in the European Union and European Free Trade Association. In Austria, daily newspaper sales rose by 14.6 per cent between 1988 and 1992, reflecting the launch of a new national newspaper. During the same period, however, sales of Greek dailies fell by 34.7 per cent, mainly it is believed because publishers tried to raise cover prices too high.

The two biggest markets by far in western Europe are Germany where 26m copies are sold every day, followed by the UK with 20.7m. France is third with 8.8m. Most investments in eastern Europe by western publishers have been in Poland, the Czech Republic and Hungary but the first moves into Bulgaria and Romania are expected this year. The largest newspaper publisher in Europe measured by newspaper sales is Germany's Axel Springer, followed by Mr Rupert Murdoch's News International and the private German group Holtzbrinck. European Newspaper Industry, Pira International, Randal Road, Leatherhead, Surrey, UK 0272/376161. \$250. Raymond Snoddy, London

Schneider cash transfers probed

Officials from Germany's federal criminal police office and the Frankfurt state prosecutors' office will today start conducting inquiries in Geneva into money transfers made by Mr Jürgen Schneider, the businessman whose disappearance in March triggered Germany's biggest property collapse since the second world war. The prosecutors' office said yesterday it suspected Mr Schneider of transferring DM245m (£92m) of Schneider group cash out of Germany during March at a time when the group's liquidity problems were mounting. The money is believed to have been transferred via London to Nassau in the Bahamas before ending up in Geneva. As a result, said the prosecutor's office, the fugitive businessman was under suspicion of conducting "fraudulent bankruptcy on a massive scale". He already faces charges of tax evasion and fraud. The Schneider group collapsed in April owing more than DM5bn. Despite several reported sightings, his whereabouts are still unknown. David Waller, Frankfurt

Bosnia talks get under way

Talks on a comprehensive ceasefire in Bosnia got under way yesterday four days late and in an atmosphere of belligerence and suspicion. The mainly Moslem Bosnian government ended its boycott of the United Nations-sponsored talks yesterday, following the withdrawal of armed Serbs from a UN exclusion zone around Gorazde in eastern Bosnia. However, Mr Yasushi Akashi, who heads UN operations in Bosnia, failed in his effort to bring the two sides to the same negotiating table, damping hopes that a nationwide ceasefire was a real possibility. Mr Akashi put it to each side separately a draft UN plan which reportedly included an initial four-month ceasefire, withdrawal of heavy weapons from front lines and the separation of forces by interposition of UN troops. The plan would require at least 5,000 extra UN peacekeeping troops in Bosnia. The Bosnian government favours a short truce fearing that a four-month ceasefire would effectively freeze existing battle lines and leave the Bosnian Serbs in possession of territory seized by force. The Bosnian Serb side wants a permanent ceasefire, or one lasting at least six months. Frances Williams, Geneva

SPD vows to stop squabbling

Germany's opposition Social Democratic party (SPD) yesterday admitted that the wind had gone out of its campaign to win the October elections but vowed it would close ranks for the last leg. Mr Rudolf Schäping, its leader, said that the party had been unable to achieve a "significant lead" in recent months, a setback which he blamed on internal squabbles. "Everyone has finally sworn to end this process," he said after a meeting between the party leadership and SPD members from all 16 Länder governments. A series of recent opinion polls have shown Chancellor Helmut Kohl's Christian Democratic Union pulling level with or overtaking the SPD, bolstered by signs of an economic recovery and stronger support in eastern Germany.

Going back on earlier comments, the SPD also said that "for technical reasons" it would keep the so-called "solidarity surcharge" – a 7.5 per cent tax to finance investment in eastern Germany – until 1996. The party had earlier said the surcharge would be scrapped and replaced with a 10 per cent charge on single people earning over DM60,000 annually. This will now be introduced in 1996. Michael Landmann, Bonn

Austrian tensions grow on EU

The campaign leading up to next Sunday's referendum in Austria on European Union membership has reached fever pitch, as the latest opinion polls indicate the vote could go either way. A poll taken in recent days indicated that 31 per cent of voters favoured joining, with a similar number opposed and 38 per cent undecided. The socialist-conservative coalition government has been showing increasing signs of anxiety. The ATX index of 19 leading shares on the Vienna Stock Exchange has lost 5 per cent of its value in the past week, with investors jittery about the referendum outcome.

In Norway, also a candidate for entry, resistance has reached new heights, just five months ahead of a national referendum, according to a poll published yesterday. Opposition to joining rose by one percentage point to 56 per cent, at the expense of support for membership which fell to 32 per cent from 33 per cent in May, the lowest level this year. Ian Rodger, Zurich and Karen Foss, Oslo

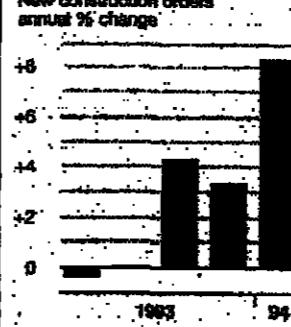
ECONOMIC WATCH

W German building orders rise

Western Germany

New construction orders

annual % change



Construction orders in western Germany rose by 6.4 per cent in the first quarter compared with the same quarter a year earlier, the Federal Statistics Office said. Demand for new housing was up 33 per cent, while orders for commercial buildings rose 2.9 per cent, and government orders declined 3.2 per cent. In terms of market share, housing grew to 26.9 per cent of the market from 25.5 per cent. In eastern Germany, construction orders rose 35.5 per cent in the first quarter. Demand for housing doubled. Commercial orders rose 20.8 per cent, and public orders were up 19.5 per cent. As a share of the overall eastern German market, housing grew to 27.8 per cent from 18.8 per cent. Reuter, Wiesbaden

■ Car sales in Italy rose 7.53 per cent year-on-year to May, with 178,869 units delivered during the month, the car industry association, Anfia, said.

■ Spain's official currency reserves fell \$304.3m (£226m) in May from April, according to provisional figures from the Bank of Spain. Official reserves stood at \$44,341m on May 31.

■ Retail pharmacy prescription drug sales in Europe's top seven markets for January-March were flat compared with a year ago at \$10.85bn (£7.2bn), according to pharmaceuticals market research company IMS International.

Ankara seeks to soothe debt concerns

By John Murray Brown in Istanbul

Turkey yesterday sought to reassure foreign bankers that it will meet its international debt obligations amid tentative signs the government's liquidity crisis is easing.

Speaking at a conference in Istanbul, Mr Bülent Oztunç, head of the government's debt department, said the country would meet the \$9.1bn in capital and interest owed on its \$67.5

New top echelon named at IMF

By George Graham
in Washington

The International Monetary Fund has expanded its top level of management, naming three new deputy managing directors to take the place of Mr Richard Erib, the outgoing deputy managing director.

Mr Michel Camdessus, IMF managing director, yesterday appointed Mr Stanley Fischer, an economist at the Massachusetts Institute of Technology in the US, along with Mr Alassane Ouattara, former prime minister of Ivory Coast, and Mr Prabakar Narvekar, an IMF official.

Since the IMF's top position is usually held by a European, the deputy's post has been, by tradition, in the gift of the US. In recent weeks, US Treasury officials have been at pains to ensure that they retained this pre-eminence.

Mr Fischer was accordingly named first deputy managing director, with broad responsibilities across all the issues facing the IMF.

All three deputies have worked for many years in international financial institutions. Mr Fischer used to be chief economist at the World Bank, just across the road from the IMF in Washington, while Mr Narvekar has spent more than 40 years at the IMF.

Mr Ouattara, meanwhile, has twice before worked for the IMF. He left in 1988 to become governor of the central bank of the African franc zone and, later, to take charge of the Ivory Coast's economy.

The decision to enlarge the IMF's upper hierarchy has been greeted by some suspicion within the organisation.

Some IMF officials fear that it will simply add another layer above that of the regional directors, who now report directly to Mr Camdessus.

He said yesterday that the reorganisation was the first since a deputy managing director was appointed in 1949, and was necessary to deal with the rapid expansion in the IMF's functions.

California dominates primary day in US

By Jurek Martin, US
Editor, in Washington

California dominates the heaviest mid-term primary round today in the US, where eight states choose candidates to contest four governorships, five senate seats and 37 House of Representatives places.

Mr Wilson, the Republican governor, and Ms Kathleen Brown, the Democratic state treasurer, are strongly favoured in California to emerge as opponents in the country's most important race in November. The outcome will have a heavy bearing on the 1996 presidential election - a Republican victory would be a clear setback for President Bill Clinton and the Democrats.

Mr Wilson must first beat Mr Ron Uzz, a computer magnate from the far right whose campaign has been mostly self-financed. The governor holds a lead of upwards of 20 points.

Ms Brown's father, Edmund G. Brown, Sr, known as Pat, and her brother Jerry each served two terms as governor of California. She must overcome challenges from Mr John Garamendi, the state insurance commissioner, and Mr Tom Hayden, now a state senator, once an anti-Vietnam War activist and once husband of Jane Fonda, the actress.

Six months ago, with California still in recession and Mr

Again, Ms Feinstein had looked unbeatable, but her approval ratings have dropped below 50 per cent and she now holds poll leads of only 5-14 points. As in the Wilson-Brown race, Ms Feinstein and Mr Huffington have already begun directly attacking each other.

In other races across the country, there is less opportunity for the fundamentalist right to make a clear mark, as happened last weekend with the nomination of Mr Oliver North as Republican senatorial candidate in Virginia. Senator Bob Dole, Republican minority leader in the Senate, was concerned enough about the broader message of that selection to say he might not welcome Mr North to the chamber.

Most closely watched will be the Democratic senate primary in Montana, where Senator Conrad Burns is one of the few vulnerable Republicans for November. Mr Jack Mudd is favoured to beat former Senator John Melcher, but the Democratic race has been complicated by the presence of a third candidate, Ms Becky Shaw, girl-friend of a former close aide to Mr Melcher. She may draw votes from Mr Mudd.

In Iowa, Governor Terry Branstad, in pursuit of a fourth term, is in a tight Republican primary against Congressman Fred Grandy.



Western hopefuls: Dianne Feinstein, John Garamendi and Pete Wilson are running in California

Driving those yellow dog blues out of the Old South

George Graham finds the US Republican party trying to advance on what used to be unpromising ground in the state of Mississippi

You have to be at least 74 years old, and white, to have taken part in a congressional election in Mississippi's first district when Congressman Jamie Whitten was not running.

The veteran Democrat has represented the district, which stretches across the north of the US state, since 1941, rarely facing any challenge and, even when there was opposition, only once gaining less than 50 per cent of the vote.

Mr Whitten's retirement from the House of Representatives, at the age of 84, has brought six Republicans and three Democratic candidates to fight today primary elections for the right to contest, in November, a seat where the Republican party has high hopes of extending its resurgence in what used to be the solidly Democratic South.

Identification of the Republicans with President Abraham Lincoln and the Reconstruction period after the Civil War of the 1860s is no longer a drawback, and the South's social conservatism aligns closely with the Republican party platform.

"It has historically been a yellow dog Democrat area - they'd rather vote for a yellow dog than for a Republican. With Whitten out of the race, I think we've got a better shot," says Mr Billy Powell, the Republican party's Mississippi state chairman.

"Given how the district is changing, it clearly fits the profile of a Republican congressional district," says Professor Leslie Burl McLemore, a political scientist at Jackson State University in the state capital.

Mr Whitten's birthplace is in the hamlet of Cascilla - two groceries and a petrol pump besieged by kudzu vine on the edge of the Delta, the flatlands between the Mississippi and Yazoo rivers. His district once included a part of the Delta, but reapportionment moved this mainly black area into another constituency.

"I think they've done a little too much for us already," said Mr Lee Inman, a barber in Calhoun City.

The Republicans' task is by no means easy, however. They have won the Mississippi governorship and both its senate seats, but made less headway at the local level. They hold none of the state's five congressional districts.

For one thing, in a state where virtually every politician poses as a conservative, it is sometimes hard to distinguish

on county-level government. "The real power has been at the county supervisor level, the courthouse crowd. I don't know if there is a single Republican county supervisor in the first district," says Mr Powell. He believes many local politicians are almost ready to switch parties. In the last year, seven county supervisors and five state legislators have left the Democrats.

But although it is possible to run in Mississippi as a Republican and win, it is still a risky choice for local politicians. This has much less to do with "yellow dog Democrat" resentment of the Republicans, dating back to the Civil War, than it does with the fact that anyone running as a Republican can say goodbye to virtually all black voters - and they make up a third of the state's population.

The Republican party's success in state-wide elections has been won, to a great extent, by advertising. But here, too, the district poses problems: much of the most fertile ground for the Republicans is in the Memphis suburbs of De Soto County, whose inhabitants are often recent arrivals in Mississippi and who, in any case, read Tennessee newspapers and watch Tennessee television - whose advertising rates are much higher than for broadcasters in the Tupelo area.

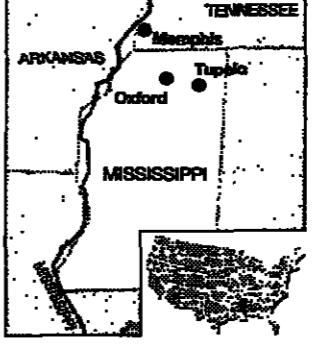
Money from the national Republican party could overcome this problem, as it did in the recent by-election in Kentucky, which the Republicans won. At the November election, however, every promising congressional district will have to compete for national funding with all the other Republican prospects.

That money might well be forthcoming, even so. The Republican party trails by 42 seats to 59 in the 11 south-eastern states of the US, and this region offers some of the party's best chances of eating into the 256-178 Democratic majority in the House of Representatives.

"It has historically been a yellow dog Democrat area - they'd rather vote for a yellow dog than for a Republican. With Whitten out of the race, I think we've got a better shot."

Two Democrats in the Mississippi delegation, Bennie Thompson and Jamie Whitten, and we are about to lose Jamie Whitten. The rest of them are in fact Republicans," says Prof McLemore.

Local penetration for the Republicans is hampered by the Democratic stranglehold



No new member of congress is going to be able to match Mr Whitten's ability to bring home the bacon and it is not certain that voters in the 1990s, more attuned to the federal budget deficit, rank this ability at the top of their list.

"I think they've done a little too much for us already," said Mr Lee Inman, a barber in Calhoun City.

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Crash adds to China's air safety worries

By Tony Walker in Beijing

China's reputation for air safety was yesterday dealt another severe blow when a Russian-built Tupolev-154 crashed eight minutes after takeoff from the city of Xian, killing all 160 passengers on board.

The crash of the aircraft of China Northwest Airlines, bound for the southern city of Guangzhou, continues a run of accidents, hijackings and near misses for China's overstretched aviation sector. Its airline industry has undergone explosive growth in the past few years, which has strained pilot and maintenance resources. The country now has over 30 regional airlines; passenger growth has been running at 20 per cent annually.

In 1988, 76 people died in five crashes. This followed the deaths of 278 the previous year, including those in the November 1992 crash of a Boeing 737 near Guilin, a southern beauty spot, in which 141 perished.

A foreign airline representative said visitors to China were entitled to "shudder" if they found themselves booked on Russian-built aircraft widely used domestic routes. Some 10-15 per cent of China's airlines are Russian-supplied.

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Taiwan premier in surprise visit to Mexico City

By Laura Tyson in Taipei

Mr Lien Chan, Taiwan's prime minister, has arrived in Mexico City in a surprise diversion from a tour of Central America and the US, the first visit by a senior Taiwanese official to Mexico in 20 years.

The two countries do not maintain official diplomatic relations, having severed ties in the early 1970s following the United Nations' recognition of Beijing.

To avoid protests from China, which could have scuttled the visit, Mr Lien's change in plan was announced in Guatemala just minutes before he stepped on an aircraft, ostensibly bound for New York.

The trip was another instance of the Taiwanese government's policy of "pragmatic diplomacy".

Using a similar formula, President Lee Teng-hui took a "vacation" tour to south-east Asian countries in April, during which he played golf with top officials, sparking vociferous complaints from China.

Jordan and Israel start talks again

By James Whittington in Amman

Jordan and Israel renewed talks in Washington yesterday which are expected to make progress on the peace "agenda" signed by the two countries in September 1993. It is the first time the two sides have officially met since peace talks were suspended after the Hebron massacre in February.

Government officials in Amman spoke confidently of a settlement on border disputes which could be implemented before a overall peace agreement is signed. Jordan has claimed two strips of land along its border with Israel.

Other subjects to be discussed include water rights and economic ties. The thorny issue of Palestinian refugees residing in Jordan has been postponed to a later date to speed progress on the other issues.

While Jordan has given assurances to Syria and Lebanon that it will not sign a separate agreement with Israel before a comprehensive solution is found, it has not ruled out implementing items on its agenda meanwhile.

This latest drive for progress comes at a time when the kingdom feels increasingly marginalised by developments in the Middle East peace process.

As in the past, Japanese producers' overseas car plants also benefited, with a 50.5 per cent rise in all kinds of vehicles to 21,575 units.

Overall vehicle imports reached 6.6 per cent of the Japanese market, another record.

The figures come after US and Japan ended a fresh round of talks in Washington last week without agreement on how far to open the Japanese car market to imports. Officials are planning to reopen the car talks in Tokyo on Friday.

Car importers were, by volume, the main beneficiaries

Local politics drains Nigeria's oil

Paul Adams on violence, sabotage and leaks in the country's oil-rich south-east

Oil spurts out of a broken pipeline and seeps into the tropical bush of the Niger delta. There is not an oil worker within 10 miles to stop it.

A Chinese newspaper reported yesterday that mechanical and personnel problems had increased in China's aviation sector this year.

According to the local Ogoni people, there have been several other oil spills on their land since November from the exposed pipes which snake along roads and past houses in the Ogoni's area of Rivers state.

In January, they say, a gas leak at Kpor led to a fire in which a villager was badly burnt. At another site at Eshubu, about 2½ acres of land have been caked in oil since a blow-out in the 1970s and in the rainy season it pollutes one of the streams which are the main source of fresh water in the area.

A joint venture in the area between the Nigerian government, which owns 55 per cent, Shell (30 per cent), Elf (10 per cent) and Agip (5 per cent) produces half of Nigeria's 2m barrels a day of oil.

All Shell's oil fields in Ogoni, which used to produce 28,000 barrels a day, have been closed and some of the flow stations have been vandalised since mid-1993 when Shell withdrew its staff and contractors from the area in the face of rising

hostility from local communities.

Shell claims that 50 per cent of the spills in Ogoni in 1992 were "the direct result of sabotage made to claim compensation".

Militant leaders in the Movement for the Survival of the Ogoni People (Mosop) say that since Shell started Nigeria's oil industry on their land more than 30 years ago, the company has damaged the environment and neglected the communities. They also blame Shell for interventions by the security forces which have led to civilian deaths over the past 12 months.

The oil companies in Nigeria estimate that they lost production and equipment worth \$300m last year as a result of community disputes.

Last year Shell alone recorded 168 incidents affecting production, lost 1,400 project days and deferred production of 14m barrels of oil. The joint venture is spending more than \$200m this year on helping the oil area communities with agricultural extension, scholarships and basic infrastructure such as schools, hospitals, drinking water and roads.

The government is cutting back its investment in the oil industry, which will depress future production and revenues. At the same time the international donors have suspended aid to Nigeria. Shell plans to stay away from the oil wealth from the central government, traditionally dominated by northern Nigerians, as the oil area communities with agriculture extension, scholarships and basic infrastructure such as schools, hospitals, drinking water and roads.

As the military government

and from the commercial centre of Lagos.

The Ogoni are one of many groups in a rising wave of protest and disorder across the Niger delta which threatens the security of the staff and equipment of the multinational oil companies which produce 55 per cent of Nigeria's exports.

This oil wealth is in striking contrast to the condition of many of the communities who lack basic amenities. There are almost no environmental laws to control the pollution from the oil industry.

In 1992 the government set

up the Oil and Minerals Producing Areas Development Commission (Opadec), with 3 per cent of the revenue and a free hand to provide infrastructure, jobs, education and better environmental standards in the area.

Its chairman, Mr Albert Horsfall, says his agency is making a good start but its budget of \$50m a year is inadequate. He estimates that it will take \$4.5bn over five years to meet its target, but such investment looks unrealistic.

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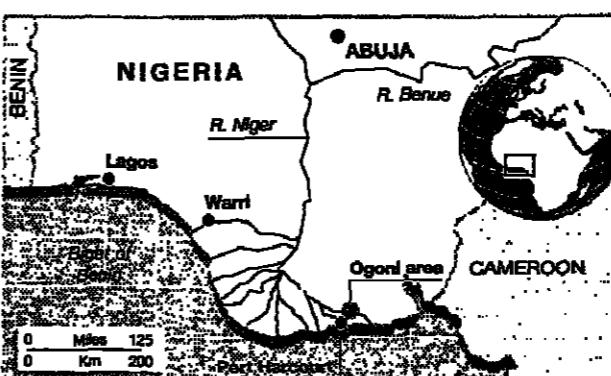
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This touches a raw nerve with Nigeria's military rulers, as Nigeria is made up of more than 200 ethnic groups.

Mosop demands that the Ogoni's right to self-determination in which they will freely determine their political destiny, use their resources for their own development... while investment looks unrealistic.

The government should try to cure the root cause of the community attacks, argues the company's chairman, Mr Brian Anderson.

In January, Nigeria's ministers of oil, internal affairs and trade toured all the oil producing areas of Nigeria and promulgated a report of their findings.



Since Mr Ken Saro-Wiwa became its leader, Mosop is demanding that Shell bypass central government, which collects the nation's oil revenue, and pay royalties and rent direct to the half million Ogoni, beginning with \$6bn in back pay.

Mr Saro-Wiwa insists on environmental and social impact studies, sponsored by Shell, on the effects of the past 30 years and says the oil companies must raise their standards to those elsewhere in the world.

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Hata defiant over high prices

By William Dawkins in Tokyo

Differences have emerged between Japan's prime minister and the government's economic bureaucrats over plans to curb the country's high consumer prices.

Mr Tsutomu Hata yesterday welcomed an interim report from an official task force on deregulation, urging the government to halve over the next five years the disparity - up to 50 per cent - between Japan's high cost of living and that of its main partners.

The gap could be reduced by around 20 per cent over that period, he said.

Mr Hata's low-price campaign has aroused fears of deflation - a chain reaction of falling prices, wages and consumption - at the government's Economic Planning Agency.

The deregulation panel, staffed by private sector advisers, estimates that Japanese consumer prices are between 36 per cent and 50 per cent higher than the US and European average. That is conservative by comparison with an Organisation of Economic Co-operation and Development estimate that Japanese retail prices are 80 per cent above the OECD average.

Prices could be brought down by cutting costly regulations, banning cartels and lifting barriers to cheaper imports, the panel proposes.

This is the second time in two weeks that Mr Hata has publicly espoused consumer price cuts, after his related decision to freeze for six months an estimated Y460bn (\$4.4bn) worth of public sector price rises.

Both moves are politically popular for obvious reasons. They correspond with an explosion in discount retailing and a trend among producers of cars and consumer electronics to design cheaper products for the Japanese market.

The yen's strength has also fuelled demand for cheap imports.

The panel aims to produce a final report by the end of this month, for inclusion in a government package to open the Japanese market and stimulate the economy, to be presented to the US in the margins of the group of seven summit in early July.

EPA officials, however, fear that more deflation on top of an existing decline in wholesale prices might kill prospects of economic recovery.

Any attempt to force the pace on retail price cuts is also likely to anger Japan's many shopkeepers and its multi-layered distribution system. These are both important features in high prices and are strongholds of the two main opposition groups, the Liberal Democratic party and Social Democratic party.

According to the Ministry of International Trade and Industry, 6.9m people work in retailing and 4.8m in wholesale distribution. This is far higher in relation to retail sales than in the US, points out Mr Paul Heaton, retail analyst at Barings Securities in Tokyo.



Ethiopians are pictured examining election posters during Sunday's election for 547 members to a constituent assembly, Reuter reports from Addis Ababa. Officials said 90 per cent of registered voters turned out for the assembly elections, an important stage in entrenching democracy after centuries of feudal rule followed by Marxist dictatorship.

"It was a smooth sail all the way. We are happy about the way it was conducted," said Mr Samson Gethahum,

legal affairs head of Ethiopia's Electoral Board.

A total of 15m of Ethiopia's 50m people were registered to vote.

Provisional results should be known later this week.

A main issue in the draft constitution to be debated by the elected members is whether it should include a provision on the right of Ethiopia's regions to self-determination.

Some opposition parties, which draw

group in the capital, boycotted the polls because they believe the new constitution could fragment one of Africa's most ancient empires.

The Red Sea province of Eritrea seceded last year after opting overwhelmingly for independence in a self-determination referendum after years of civil war.

President Meles Zenawi and his then-guerrilla movement, the Ethiopian Peoples Revolutionary Democratic Force, overthrew the dictatorship of Mengistu Haile Mariam in May 1991.

Call for new swap and option curbs rejected

By John Gapper, Banking Editor

A senior international bank supervisor yesterday rejected calls for further regulation of financial derivatives such as swaps and options, arguing that banks' derivatives trading is already covered by prudential rules.

Mr Tommaso Padoa-Schioppa, chairman of the Basle committee on banking supervision, said creating of new regulations for derivatives would only be justified if they represented a new form of financial risk.

He stressed that bank super-

visors looked at categories of risk rather than particular products, and risks associated with derivatives were the same as those involved in other banking operations.

His call reinforced the caution about regulation of derivatives expressed last month by Mr Alan Greenspan, Federal Reserve chairman, who said supervisors already had sufficient powers to control derivatives.

Any debate over the possible regulation of bodies such as the unregulated derivatives trading units of investment banks has been sparked by a US General Accounting Office

report warning of risks from derivatives.

Mr Padoa-Schioppa told the International Monetary Conference, a group of executives from 103 large banks, that the only "quantum leap" created by derivatives was in understanding risks which they will soon have to apply to market risks, he added.

Banks argue they should be allowed to use such models rather than the committee's own proposed guidelines. The committee is trying to introduce a framework for market risk similar to its 1988 accord on credit risk.

The Basle committee was concerned "a market failure" had occurred in disclosure

because no participant wanted to be first to publish information for fear of losing an advantage. The committee was considering allowing banks to adapt internal risk management models to calculate capital charges which they will soon have to apply to market risks, he added.

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Mr Robert Merton, professor of business administration, of derivatives and "the philosophy which inspires these".

Northern Yemenis announce ceasefire

By Eric Watkins in Aden

Northern Yemenis said yesterday they would begin an indefinite ceasefire at midnight last night in the six-week war with the south.

Mr Mohammed Salem Besenwa, the foreign minister, said in Sanaa: "We have informed the secretary-general of the UN and the secretary-general of the Arab League that a ceasefire will start from midnight tonight (1000 GMT).

The ceasefire will last until the other side ceases to abide by it. Then I don't think it will be possible for us to stop our people."

The minister said Sanaa made the ceasefire offer before Gulf Arab states made a statement on Sunday in which

they said they would push for action against any side which failed to heed a UN ceasefire call made last Wednesday.

"We think the statement (by the Gulf Arab states) will encourage the mutineers (southerners)... We will enforce it (the ceasefire) as far as we are concerned but we don't know what the reaction of the mutineers (will be)," Mr Besenwa said.

Earlier yesterday, north Yemeni artillery had continued to pound Aden in the most determined offensive against the south Yemeni capital since the start of the civil war.

The ceasefire will last until the other side ceases to abide by it. Then I don't think it will be possible for us to stop our people."

With Aden's refinery still ablaze following an air raid on Sunday, the north's artillery turned its attention to the airport, long the mainstay of south

Yemen's defence. Despite the new offensive, the airport remained fully operational.

North Yemeni military forces began their latest attack on Sunday morning, as two warplanes bombed the oil refinery at Little Aden and set fire to two storage tanks. Southern political leaders said a second attack was launched in the evening, setting four more tanks alight.

Mr Mohammed Hussein Hajji, manager of the refinery, said six firefighters had been killed in the blaze and a further 16 injured. He confirmed six storage tanks had been severely damaged and petrol supplies might become critical.

NEWS: UK

Underlying trend suggests steady and sober recovery under way

Consumer borrowing slips

By Gillian Tett,
Economics Staff

UK consumer borrowing slipped back slightly in April, although the underlying trend in consumer lending suggests that the recovery is proceeding on a steady and sober pace, official figures yesterday showed.

Net lending to consumers through finance houses, bank credit cards and non-mortgage building society loans fell to a seasonally adjusted £413m in April, down from £518m the previous month.

The Central Statistical Office pointed out that the data may have been distorted by the timing of Easter, and stressed that the three monthly figures were a better guide to the trend.

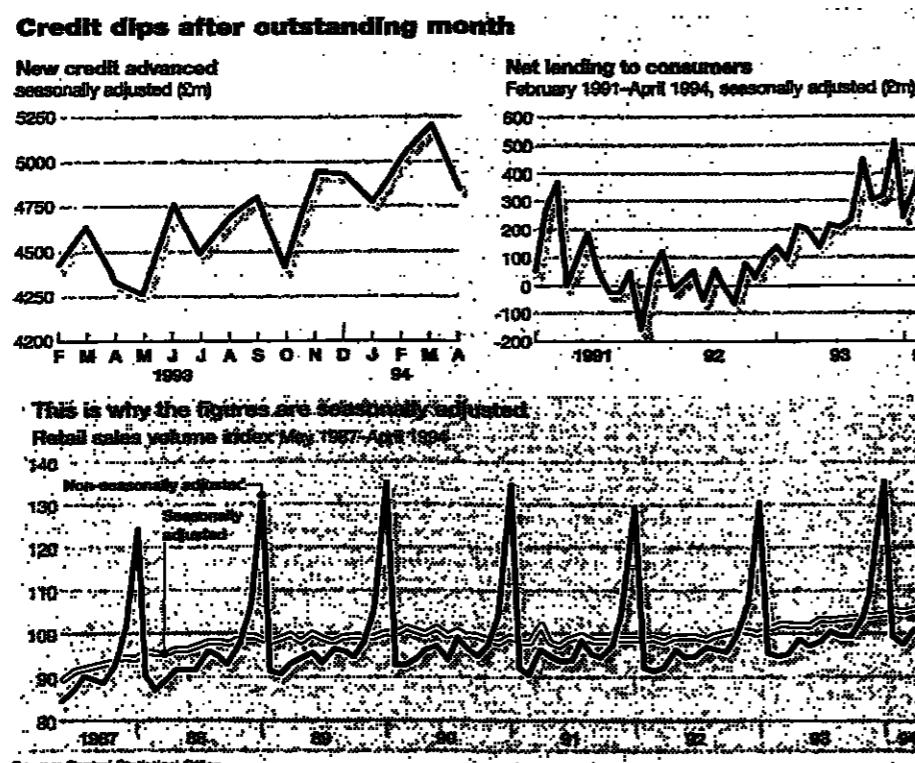
These showed that net lending reached record levels in the three months to April, running at £1.82bn. The level of new credit advanced to consumers in that period was also a record, at £15.105bn.

The figures were welcomed by the Treasury, which suggested they provided hints that consumer borrowing had not yet been dented by April's tax rises.

"It is too early to say what the full impact of the tax increases will be. But clearly it is encouraging that the trend remains upwards – this is consistent with an upward trend in consumer spending," a spokesman said.

The figures also received a warm reception among City analysts, who said that April's dip must be viewed in context of an exceptionally strong level of consumer credit in March.

Following a survey by the Finance and Leasing Association



Source: Central Statistical Office

uneven picture of consumer behaviour, analysts warned it was too early to predict the full impact of the April rises.

Although recent retail sales and M0 figures have pointed to strong consumer activity, recent mortgage figures have suggested a slowdown in mortgage lending.

Meanwhile, consumer confidence surveys have pointed to relatively muted levels of confidence – a factor that may be feeding through to consumer borrowing figures.

But with the economic indicators still pointing a slightly

downward trend in April's net lending figure

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New car sales up 10% on last year

By Kevin Done,
Motor Industry Correspondent

New car registrations in May were up 10 per cent year-on-year as demand rebounded from the impact of tax increases in April.

Car registrations increased to 150,070 from 136,386 in the same month a year ago, according to figures released yesterday by the Society of Motor Manufacturers and Traders.

The rate of growth in car registrations slowed in April with a year-on-year increase of 4.8 per cent, but sales strengthened again in May in particular in the retail and small business market.

Car registrations of 821,515 in the first five months are 13.3 per cent higher than the 725,116 of the same period a year ago.

Early in the year growth in fleet car sales – to operators of at least 25 cars – outpaced the market. This was reversed last month. Sales to retail and small business customers in May were up 13.9 per cent year-on-year compared with an increase of 6.2 per cent in fleet car sales.

Car credit, which represents about half of the total finance house lending, fell to £871m in April, its lowest level since last October. But this was partly offset by other data released yesterday, which showed that car sales rebounded sharply in May, after weakening earlier in the year.

Conservatives divided over future of Europe

By James Blitz
and David Owen

Mr John Gummer, UK environment secretary, yesterday re-opened the divisions over Europe inside Mr John Major's cabinet by taking a markedly different approach to the prime minister on the future of the European Union.

As Labour sought to highlight what it called the Tories' "great divide" over Europe, Mr Gummer hinted at discontent within the cabinet over Mr Major's recent commitment to a "multi-speed" EU.

With the European poll only two days away, the prime minister has elaborated a "new vision" for Europe, in which member states can decide "in their own way and at their own speed" how much power they give to Brussels.

But Mr Gummer – one of the most pro-European ministers – warned yesterday that it would be "quite unacceptable" if the development of more flexible decision-making allowed Britain to take a more cautious line on its place in Europe.

"What is absolutely clear is that Britain is not going to be at a slower speed than the rest of Europe," he said at the Tories' daily Euro-election news conference. "We are at the heart of Europe and we have no intention of being at a slower speed than the others."

Mr Gummer also appeared to disagree with the prime minister on why flexible decision-making needed to be introduced in the first place.

Mr Major claimed last week that the "multi-speed, multi-track" idea should be an integral part of the EU's development into the next century.

But yesterday, Mr Gummer cast that theme in more modest terms, claiming that it would merely relate to new applications for EU membership from the developing countries of Eastern Europe.

He said: "A number of countries who want to join cannot just join on the basis of total access. What the prime minister is suggesting is that you have got to look at ways in which we enable people to join at a different level."

Labour tried to exploit Tory divisions over Europe, claiming the prime minister was trying to manage irreconcilable division between pro- and anti-Europeans in his party.

"So deeply split is the Conservative party now on Europe that its leader is obliged himself to face both ways on just about every important issue," said Mr Jack Cunningham, shadow foreign secretary.

Sir Russell Johnson, Liberal Democrat Europe spokesman, said the Conservative campaign had been "wholly negative" and had sought to maximise differences.

He was supported by Lord Thomson of Monifieth, Liberal Democrat peer and former EU commissioner, who said it was a "tragedy" that the Tories had turned their back on playing a leading role in the EU "for reasons of purely domestic politics."

He argued that the Tories had forfeited the chance of Sir Leon Brittan, the former Conservative cabinet minister, becoming president of the European Commission through their attitude to Europe.

Britain in brief



EU to rule on workers' committees

The UK is one of the main growth markets for new car sales in Europe and manufacturers are intensifying their marketing activities with an array of cash rebates, special editions and other incentives.

Mr Paddy Byrne, sales director of Ford of Britain, leader of the UK new car market, said that car registrations in the whole of 1994 were forecast to rise by 10 per cent to 1.95m from 1.75m last year.

The industry is preparing for the traditional surge in car registrations that takes place in August with the change of registration prefix.

Under the EU's draft directive on information and consultation in transnational companies will require companies employing at least 1,000 workers across other EU states and 100 or more in at least two of those states to negotiate European-wide arrangements if demanded by their employees or their

The directive is expected to come into law in the second half of this year during the EU's German presidency.



Trinidadian batsman Brian Lara yesterday made the highest-ever score in first class cricket when he reached 501 runs for Warwickshire against Durham at Edgbaston. His innings beat the 499 made by Pakistan's Hanif Mohammad for Karachi against Bahawalpur in the 1958-59 season.

Photo: John Potter

Chartered Accountants in England and Wales has jumped by more than half in the last three years, according to a report.

Complaints focused on alleged poor work, slow services and disputes over fees.

With Cogent as its partner, and Digital, in partnership with Printrik, a decision on the 245m system will be made in October.

Stock Exchange

Personal computer manufacturers have always eyed the home market as an El Dorado, a largely untapped gold mine that promises great wealth to those who can find the right combination of technology and price.

Yet the PC industry is littered with sad tales of companies that failed to make it into the home market, or lost huge fortunes in the attempt, such as Coleco with its Adam home computer, the Sinclair ZX80, Commodore and IBM with its IBM PC.

But despite the failures, PCs have made remarkable inroads in the US home market. According to the Software Publishers Association, 27 per cent of US households have PCs. Market research company Link Resources predicts that by 1998, almost 50 per cent of US households will own a PC.

"When you look at medium to large business sectors, the markets are already very saturated," explains Abhishek Rane, senior industry analyst at Link Resources. "The home market offers much greater potential for growth than the business market."

While many PC companies have offered low-end models as a way into the home market, Intel, the leading microprocessor manufacturer, has discovered that US consumers are buying large numbers of sophisticated systems.

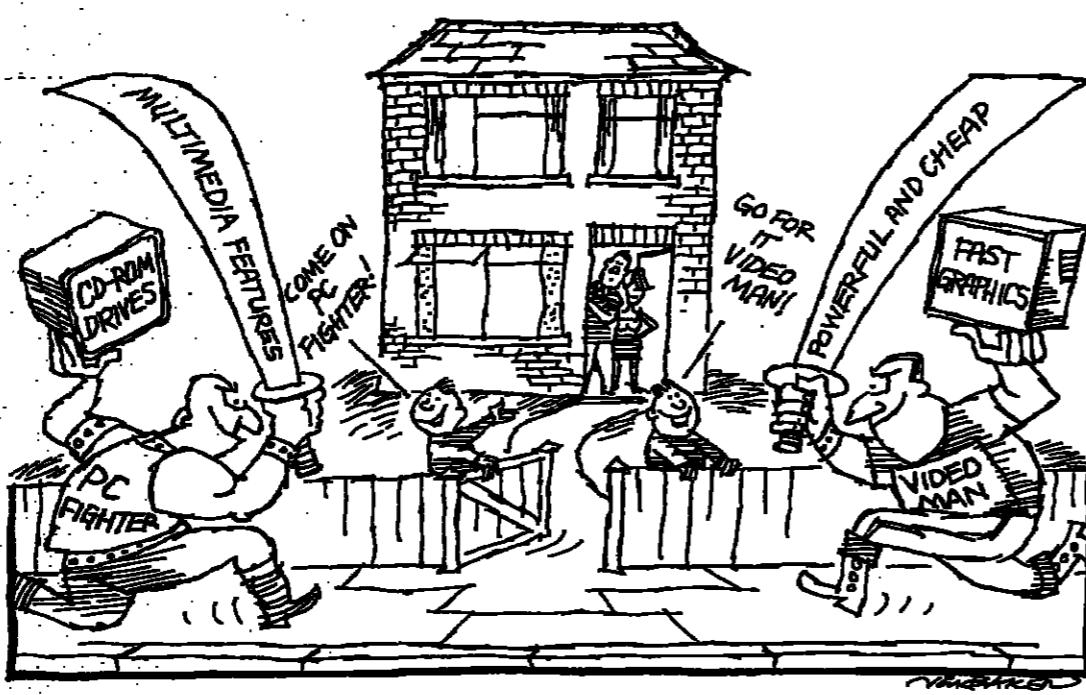
"Conventional wisdom says that the home PC market is served by a low-end machine," said Paul Oelini, senior vice-president and co-general manager of Intel's Microprocessor Product Group. "The facts are different, however. Multimedia education and entertainment applications are key pieces of the home PC marketplace, and they require CPU (central processing unit) performance as well as a robust system design."

Intel recently launched a \$150m (£100m) marketing campaign to promote its most powerful microprocessor, the Pentium. In systems aimed at the home market, Intel also plans to cut the price of Pentium microprocessors at a faster rate than making Pentium-based PCs more affordable, especially for the Christmas selling period. By the fourth quarter of this year, Intel expects Pentium-based PCs to account for 25 per cent of all PCs sold, with at least half being sold to the home market.

The strength of the home PC market is reflected in its mark on the design of future PC systems, an area that used to be driven by the demands of the business market. For example, 3.5in drives and sound cards are becoming standard equipment on PCs, yet there are few business applications that require them. Likewise, the next big move is Microsoft's popular Win-

The competition for fun and games is heating up as PC makers take on the video giants, reports Tom Foremski

Battle for house and home



downs user interface, will be able to run games and educational software applications.

Software applications have always been the key to hardware sales. In the same way that financial spreadsheet software helped boost sales of business PC systems, games promise to help PC companies in their efforts to enter more homes.

Market research shows that children are a key factor in determining PC purchases. This means that the PC has to adopt some features that will appeal to children who are already familiar with video game player machines.

But the competition is formidable. While PCs have managed to enter markets once dominated by workstations, minicomputers and mainframes on the basis of high performance and low price, video games players are already very cheap. The next generation of video game players, due in 1995 from Nintendo and Sega, will feature fast graphics and powerful microprocessors that will

rival high-end workstations at a fraction of the price.

Jeff Camp, multimedia systems product manager at Microsoft, said:

"The home PC market is growing quickly but we have had an earful from customers complaining about the lack of fast games for Windows systems. We are now able to provide games that have the fast graphics that customers want."

Developing games for PC systems has many attractions for video-game companies. There is an installed base of about 40m Windows-based PC systems and the distribution of games for PCs is cheaper. Nintendo and Sega charge video game developers about \$20 for each video game cartridge and they maintain strict control over the type of games that can be played on their systems. In contrast, there is no royalty to pay for distributing PC-based games and there are no restrictions on the development of games.

PC owners are typically more affluent and can afford to buy more

games. The Software Publishers Association found that half of all US households with PCs have an annual income of at least \$50,000.

"PC versions of major arcade game and film hits are the fastest growing segment of our business and of the game industry overall," says Henry Kaplan, chairman and chief executive officer of New York-based game developer Hi Tech Expressions. "Industry-wide, this segment of the market accounted for about \$300m in sales in 1993 and we expect it to grow to \$1.5bn by the end of this year."

While Microsoft is happy to encourage third-party game developers, it is not ignoring this fast growing market itself. The company has expanded its consumer products division and launched its Home brand which includes low-end versions of its business software such as word processing and spreadsheet software plus new entertainment software.

Although Microsoft offers fast, graphics-based games such as those

found in its Arcade package, Tony Garcia, manager of the entertainment division at Microsoft, explains that most of the games are more adult oriented. "Games such as Flight Simulator and our forthcoming Space Simulator offer more depth which appeals more to adults."

Software companies such as Utah-based WordPerfect have also targeted the home market. Earlier this year, WordPerfect introduced its Main Street software line, a collection of word processor, spreadsheet, games and educational software. The company also agreed a deal with Walt Disney that will allow it to use Disney characters to market its software in Europe.

Among PC manufacturers, Compaq Computer has been successful in reaching the home market with its Presario models. Its success recently pushed the company to the top in US sales for the first quarter of 1994, ahead of 1993 market leaders IBM and Apple Computer.

For now, PCs and video game-playing machines can co-exist, with most households that have PCs also owning game machines. The battle for the home market will be waged with the coming integration of computers and TVs in the form of set-top TV boxes. These will be powerful computing devices, capable of running business as well as entertainment software, and acting as gateways to the much heralded "information superhighways".

PC firms such as IBM, Hewlett-Packard and Apple Computer are developing their own set-top TV systems. These companies have an advantage in that there is a huge base of software applications, not just games, that will run on their platforms.

However, video game machine makers will not give up their huge installed base without a fight. Nintendo, Sega and Sony are developing powerful set-top TV systems. Nintendo has teamed with workstation manufacturer Silicon Graphics to develop a set-top TV system that will incorporate many of the features of a high-end 3-D graphics workstation yet retail for less than \$300.

Nintendo and Sony have an advantage in that they understand the consumer electronics market better than their PC rivals. They also have more widely recognised brand names and well-established distribution channels.

Whichever technology wins, it is clear that the competition for the home market will result in larger numbers of computers in the home; allowing parents to work from home, children to run educational and entertainment programs and, eventually, to provide a means of managing huge data flows from future "information superhighways".

Old bugs learn new tricks

Oil à l'orange is a tasty dish for some, says Ian Hamilton Fazey

Eward Billington, the Liverpool sugar merchant and foods group, appears to have found a way to make waste oils, tars and other unwanted hydrocarbon stains and contaminants more palatable - not to humans but to bacteria.

The development offers a more environmentally friendly way of cleaning grime-prone surfaces like garage, workshop or factory floors, or petrol station forecourts. It also works on contaminated ground, where hydrocarbon waste has soaked into soil, giving an alternative to digging out the earth and dumping it.

Using bugs to devour hydrocarbons has been practised in sewage farms for decades but problems arise when the waste comes in an emulsion or suspension after the oils have been dissolved in detergents.

Bacteria are put off by the taste of the detergent and the digestion process becomes inefficient. Most producers of effluents tend to accept the situation and pay their local water authority extra to compensate for the problem.

The principal ingredient of Billington's process is a natural solvent called Pronatur, made from waste orange peel. Billington unveiled it last year after it bought the small company which had developed the solvent. It has since invested £200,000 in a new factory in Bootle - twice the sum planned originally because sales of the solvent are growing faster than expected.

One of the solvent's properties is that it is immiscible in water. This means that if it is used to clean oil-stained concrete, it can be washed down the drain with water and easily separated from the water in interceptor pots.

In porous material like shingle or soil, a spray of water helps the solvent and bacteria soak in and do their work. In either case - solid surfaces or porous media - the final chemical products are carbon dioxide and water.

The solvent smells like oranges and seems to appeal to oil-devouring bugs. The system has been demonstrated during trial cleaning of stained concrete and railway track at Tyseley depot in Birmingham.

The trials were evaluated independently by Derby University's Environmental Impact Analysis Group and seem to support Billington's claims for its product and systems.

When the trials started, the chemical oxygen demand (COD) of Tyseley's effluent was 12,144 mg/l, more than 20 times above the permitted level. By spraying with Pronatur and water and then adding bacteria to dissolve the waste hydrocarbons, the figure dropped to 4,286 mg/l after a week and 86 mg/l after three weeks.

The hydrocarbon content of the effluent went from 470 mg/l to 54 mg/l in the period. Glycol readings plunged from 7,610 mg/l to less than 1 mg/l, while the pH moved from a highly alkaline value of 12 to 6.82 - barely on the acidic side of neutrality.

"We are now selling do-it-yourself kits to industry, plus training, so companies can carry out this cleaning as a simple, cheap, maintenance routine," says John Hassett, Billington's chief executive.

Richard Monbiot, technical director of Pronatur Products, a Billington subsidiary, says the aim will be to undercut cleaning contractors, where the main cost is labour, and obviate the need to pay extra to water authorities for effluent treatment because consent levels cannot be attained.

In the Tyseley railway depot case, effluent charges had been £20,000 over six months. The new system cost £10,000 to get everything thoroughly clean, while continuing maintenance will be a fraction of that.

However, while Pronatur is gaining ground among big companies, Monbiot says medium-sized and smaller companies are sticking to trichloroethane, its entrenched rival. But Billington believes that companies may be forced to change by law, as environmental controls tighten over synthetic chemical solvents.

"Big companies are greener and are more likely to act earlier," Hassett says. Pronatur has attracted interest in the US and Europe, where distributors are in place, and also in Japan.

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MANAGEMENT: THE GROWING BUSINESS

Informal capital supplied by business angels is increasingly recognised as an important source of finance for small private companies.

Yet it is a stark fact that very few, if any, of the marriage bureaux that bring together wealthy individuals and private businesses make ends meet. Almost all have required subsidies from government, corporate sponsors, or other parts of their own business, to cover the full cost of their service. Even in the US, where the entrepreneurial seam runs deeper, the most successful marriage bureaux are subsidised.

This is not to say private investors are not backing private companies. Introductions are probably made every day in the golf club and through family ties. According to some estimates, as much as £1bn has been invested in the UK informally over the last 10 years.

The government clearly believes this informal investment is an appropriate form of finance for undercapitalised companies too small or too risky to be considered worthy of formal venture capital. But are introduction services, as currently structured, likely to increase substantially this flow of risk capital?

In last month's white paper on competitiveness, the government said it wanted to work with Business Link organisations, TECs and the private sector to encourage informal investment. The DTI would work to try to help develop "national coverage of a local business service throughout England", the white paper said.

But neither the white paper nor the DTI have said whether the government will provide any funding for this. The DTI's pump-priming funding runs out next December for the five business introduction pilot schemes it backed two years ago.

The DTI has tried, but failed, to encourage the formation of a national database. The agencies - Venture Capital Report, Linc, Capital Exchange and Techinvest - could not agree the form such a national service should take.

As a result, the introduction agency market remains fragmented and the service offered to subscribers varies greatly. The following are some of the leading providers:

Venture Capital Report, Lucius Cary, who started VCR 16 years ago, is the grandfather of the business angel introduction industry. Publisher of a monthly report that goes to the 634 business angels on its books, VCR claims to be the most interventionist of the bureaux, assessing projects at a depth not attempted by other services.

This, VCR argues, filters out the non-starters and gives busy investors awarts-and-all view of businesses including the amount of



Go-betweens for business angels

Richard Gourlay examines the growth of informal capital financing and the marriage bureaux set up to bring companies and cash together

equity on offer. VCR consultants spend half a day interviewing the company and then compile a five-page summary of the business proposition for publication in the report.

Investors pay £200 a year to subscribe; companies £250 and, on completion of a deal, a £1,000 fee plus 2.5 per cent of any money raised.

VCR normally does about 15 deals a year but has already done 17 in the last six months, raising £1m. It has raised £1m since it was set up.

Expansion of the formula is constrained by the time required for each appraisal. (Tel 0491 579989)

published in Linc's monthly bulletin. Linc says there are 250 investors on the books of regional members who have helped raise about £4.5m for 95 businesses since the group was set up in 1987.

It says investor meetings run by its members are increasingly popular; at each meeting about six companies tread the catwalk before potential investors in a beauty parade.

Linc's record has been patchy. Some members, like Staffordshire Development Association, have been active and successful. Others have done almost no deals and have left Linc. Companies pay £200, investors £120 a year; some of the Linc members charge commissions when cash is successfully raised. (Tel 0606 737009.)

books and says it has raised more than £1m for 20 deals in 12 businesses. (£500,000 was provided in one deal by a venture capital group.)

The service offers companies seeking money a subsidised advisory service during which consultants put the proposal into shape. It also runs investor meetings and plans to open them to the public for a fee next month.

Techinvest sends some of its proposals to VCR and some to Linc for inclusion in Linc's national bulletin. Investors and companies pay £200 to join - £400 if their cases are published through VCR - and a fee similar to VCR's if cash is successfully raised. The source of future funding is uncertain. (Tel 0422 342494.)

books and says it has raised more than £1m for 20 deals in 12 businesses, but it does not yet invest its investors.

A network of self-employed principle advisers spends about three hours verifying that companies seeking funds have a complete business plan. These advisers receive part of the £120 fee that the companies pay for inclusion in a newsletter.

Capital Exchange says it has found much interest among corporate as private investors. Set up late last year, Capital Exchange says it has found joint venture partners or equity for 19 businesses. It has no way of verifying how much of the £1.8m sought was actually raised. There are 1,100 members, 700 of which are investors, who pay £75 a year membership. (Tel 0422 342494.)

Like the other services, Venturelist will depend heavily on getting an adequate supply of angels and a strong enough deal flow.

Pinning down angels and the amount they invest is notoriously difficult. But if recent research is to be believed, there are about 50,000 informal investors in the UK. Colin Mason, of the University of Southampton, guesstimates angels have as much as £2bn they would invest if only they could be joined with business opportunities.

A better flow of information would clearly facilitate more marriages between angels and entrepreneurs. But judging by the record, most angels will continue to find their investment opportunities through their own networks rather than through the energetic offices of the business introduction services.

particularly in smaller companies which the group was refinancing.

Increasingly these non-executives wanted and took equity stakes, investing alongside 3i in classic informal financings where the managerial expertise of the angel was as important as the cash.

The group says that a large number of its deals worth less than £500,000 now follow this pattern of co-investments alongside business angels. In the 17 months to the end of December 1993, 3i co-invested in 53 companies in this way; its contribution is between three and 10 times what the angels invest, depending on the size of the deal. 3i says it has 150 business angels on its books, many of whom want more than one non-executive equity investment. The angel is often the factor that makes the deal viable, 3i says.

Other groups trying to introduce angels and opportunities include accounting firms such as Blackstone Franks that keep a database as part of their service to customers.

The National Westminster Bank has said it will launch a pilot introduction service that will incorporate a national database of business angels. The launch has been delayed but NatWest says it is developing the product. Other introduction agencies are listed in a booklet produced by the British Venture Capital Association.

One group not in this guide is Enterprise Adventure (Tel 0483 458111), which launched a national database last week called Venturelist. Computer-based, it hopes to be a national clearing house which angels can access via modems.

After a period in which the service is free, companies will pay £300 for a quality assessment by a consultant and an entry on the database. Individual investors will pay £900 - firms of accountants bringing a number of angels will pay £1,000.

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Call for trust changes

The British Venture Capital Association is this week expected to tell the government its proposed venture capital trusts need substantial changes if they are to be attractive to investors and sponsors.

In a submission to the Inland Revenue, the BVCA says the VCTs need to be allowed to invest in larger companies and says greater tax breaks are required to attract investors.

The government announced it would launch the VCTs in last November's budget as one of a number of measures to encourage private investment in small companies.

While the idea has been welcomed in principle, the structure proposed by the Inland Revenue has been widely criticised as providing insufficient reward for the added risks of investing in unlisted companies.

The BVCA wants the single investment limit to be £2m, compared with the Revenue's proposed figure of £1m; the Association of Investment Trust Companies wants a £3m ceiling.

The BVCA also wants:

investors to enjoy capital gains tax roll-over relief when they sell quoted or other investments and reinvest the gains in the VCTs. Since the last budget, this relief has been available on direct investment in private companies.

The government wants the VCTs to help attract private equity investment in start-ups, new and high-technology and smaller companies.

The BVCA argues that, by only allowing investment in this type of small company, the VCTs would be unattractive to investors and highly risky.

It argues the government should consider either up-front relief against income tax at 20 per cent or tax relief for investments in the smallest companies, for example below £50,000, instead of the proposed tax relief on dividends and capital gains.

RG

The Local Investment Networking Company. Comprising 12 Training and Enterprise Councils and Enterprise Agencies, this national umbrella group is sponsored by the private sector. Councillors ensure business plans are complete but their assessment has in the past been seen as more perfunctory than VCR's.

The company seeking equity writes a two-page summary that is

TECHINVEST. Based in Cheshire and one of the DTI's five demonstration programmes, Techinvest is one of the more successful regional introduction services. Started in February 1993, it has 79 angels on its

The Capital Exchange. The youngest of the four units the DTI is trying to encourage, Capital Exchange is purely a publishing operation. It aims to provide a market place for information and attempts to provide angels with a

Somewhat different from all of these is 3i, the UK's largest supplier of private equity to private companies. At the height of the recession, 3i had used successful businessmen and women with time on their hands as non-executive directors,

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A State Holding Company
**MODIFICATION OF
INVITATION FOR TENDER**

The State Holding Company (hereinafter as Caller of SHC) informs the interested parties with the assistance of Daiwa-MKB (Hungary) Investment and Securities Co. Ltd. (hereinafter as Adviser), that exercising its right included in the 3rd point of Chapter VIII of the Tender Conditions,

the deadline of submission of the bids are modified in case of the one-round public tender announced for the purchase of HUF 453,570,000 nominal value state-owned shares of

Zsolnay Porcelain Factory Co. Ltd.
representing 84,285% of the share capital.

The modified time period available for submitting of the bids:
August 1, 1994 from 9.00 am to 12.00 noon

Place of submitting of the bids:

**Daiwa-MKB (Hungary) Investment and Securities Co.
Ltd.**
East-West Business Centre
1088 Budapest
Rákóczi út 1-3, 111/38.

The bids will be opened by the opening committee formed by the representatives of the State Holding Company and the Adviser in the presence of a Notary Public at the headquarters of the Adviser at 2.00 pm on August 1, 1994.

The other regulations of the Tender Conditions are unchanged.

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For further details contact Peter Landsborough, FCCA tel: 0428 751671; fax: 0428 751405

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For further details contact the Joint Receiver: Donald McGrath, Grant Thornton, 112 West George Street, Glasgow G2 1QF.
Tel: 041-332 7484. Fax: 041-333 0581.

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The UK member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

DAVISON & CO. ENGINEERING LIMITED

(In Administration)

The Joint Administrators, K. S. Chalk and R. S. Prece, offer for sale as a going concern the above manufacturer of 5 - 1500 kVA generating sets and self-priming pumps

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For further information please contact Roger Smaridge at Touche Ross & Co., Columbia Centre, Market St., Bracknell, Berkshire RG12 1PA. Tel: 0344 54445. Fax: 0344 422681.

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Neills Engineering Limited

The Joint Administrators, F. W. Taylor and T. N. Birch, offer for sale the business and assets of the above comprising:

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For further details please contact F. W. Taylor, Ernst & Young, Silksheath Court, Thelham Street, Liverpool L2 2LE. Telephone: 051-236 8214. Facsimile: 051-236 0258.

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FINANCIAL TIMES SURVEY

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DANISH FOOD INDUSTRY

Tuesday June 7 1994

■ How rennet led to biotechnology Page IV

A healthy appetite for world markets

The food industry accounts for a quarter of exports and has been hit by the recent Gatt deal. But there could be new opportunities, writes Hilary Barnes

An English schoolgirl who was asked in the 1980s what she associated with Denmark, replied: "pig, pig, bacon, pig". This may not be an uncommon image, but there is much more both to modern Denmark and to its food industry.

Though it rears more than 20m pigs a year and still provides the best-selling imported bacon in Britain, Denmark, with only 5m people, produces enough food for three times that number. It also has a large share of world markets in other areas apart from pigmeat where it has specialised, such as cheese and fresh and frozen fish.

The food industry provides between 12 and 18 per cent of Denmark's domestic employment (depending on the definition used), and accounts for about 25 per cent of the country's merchandise exports.

Denmark is the world's fifth-largest exporter of food products, according to a report produced for the Ministry for Industry last year, and a 16 per cent increase in output over the past 10 years has enabled it to maintain its share of world markets.

Manufacturing industry long ago overtook agriculture as the country's main export industry, and now provides about 70 per cent of the country's merchandise exports, but agriculture and fisheries still account for about 5 per cent of total employment and roughly the same share of total production.

The rise of the primary food industries – pigmeat, dairy products and fish – has been accompanied, too, by the development of companies in associated industries, many of them world leaders. These include

the quality of its products along the route from the farm to the table.

The strong position which the country holds in the food industry goes back a long way. Denmark was one of a few countries in Europe which did not react to the challenge of cheap American corn in the 1970s by raising import barriers. Instead, its farmers had to find alternative sources of income, and as a result, developed a lucrative market exporting butter, eggs and bacon to the UK.

The country's food and food technology industry has never looked back. Since entry into the then European Community further support for Denmark's primary agricultural industry has come from the common agricultural policy, which subsidises exports to non-member countries.

Yet, a threat of sorts does now hang over the sector in the shape of the recent Gatt agreement, which calls for a reduction of 34 per cent in the volume of exports of subsidised products.

Mr Bjorn Westh, minister for agriculture, sees the Gatt agreement as a challenge, which opens up opportunities to win new markets, and he is calling for an attacking policy on the part of Europe to make the best of these opportunities.

Mr H.O.A. Kjeldsen, president of the Agricultural Council (an umbrella organisation for almost all the Danish farmers' organisations) shares the minister's view, although, as he says, his members "face a harsh period of adaptation".

The rest of Europe has a special reason to be interested in the Danish food industry and its ability to adapt. A large



Some of these Danish Crown pigs may be destined for Korean dinner tables (see story on page 11)

share of Denmark's agricultural exports goes to non-European Union countries, especially cheese, a product in which Iran is the largest export market by tonnage. The Middle East is an important market for butter and milk powder and Japan has overtaken the UK as the most important market for Danish pigmeat (by value, though not by tonnage).

As Mr Westh points out, policies which allow Denmark to continue to export to third countries should be of interest to other European countries. Otherwise, the products concerned will be officiated on the European market, causing serious downward pressure on prices.

He wants the European Union to consider bringing the European corn price down to the world market level. This would eliminate the subsidy element in the production of pigmeat and poultry, which are fed on corn products. No quantitative restrictions, would as a result need to be imposed under the terms of Gatt agreement on exports.

Mr Kjeldsen also wants Europe to introduce B-quotas for milk production. The B-quota would be priced at the world market price and could be used to help Denmark to maintain its exports of cheese, butter, and powdered milk exports outside Europe.

Prospects for the primary food industry clearly depend on access to world markets, but Denmark has one important advantage. Pigmeat, the most important agricultural export product, is not directly supported under the common agricultural policy and its exports are therefore not threatened by the Gatt agreement in the same way as dairy products and beef.

Though pessimists focus on the food surplus in European countries in considering the future of the agricultural food industry, others, such as Mr Erik Juul Jorgensen, head of the private Institute for Food Studies and Agro-industrial Development, in Copenhagen, focus on the global market. They predict a strong increase in demand for food, and see few limits to the potential for Danish production and exports, given a satisfactory world trading regime. In a 1992 report, Mr Juul Jorgensen argued that Denmark could double production by its agricultural food processing and agro-technical industries between 1990 and 2001.

The pig farmers have shown the way. Between 1989 and 1993, pig production increased from 15.5m to more than 20m animals per year, or by 30 per cent. Pigmeat prices over the past year have been so low, however, that no further increase in production is expected.

Mr Bent Sloth, chairman of the Association of Danish Slaughterhouses and himself a pig producer, predicts that pig output will not rise from the present level for several years. However, Mr Westh believes production may well reach 25m by 2000, and Mr Juul Jorgensen sees no reason why it should not reach 30m during the first decade of the next century.

A feature of the agricultural sector is the domination by the co-operative movement. Two co-operative dairies, MD Foods and Clover Milk, account for 90 per cent of the milk produced on farms. Five slaughterhouse

groups account for almost all the pig production. MD Foods and the two largest slaughterhouse groups, Danish Crown and Vestjyske Slakterier (West Jutland Abattoirs) are among the largest companies in their industries in Europe.

The co-operatives, which are governed by a democratic system of one man, one vote provide the dairies and slaughterhouses with a unique degree of vertical integration from farmer through processing to export sales.

One of the disadvantages of the co-operative system according to its critics, is its inability to raise equity capital from external sources. The co-operatives have found a way round this limitation, however, through the establishment of MD Foods International in the dairy sector, and Tulip International in the meat sector.

MD Foods, which has invested heavily in the UK dairy industry, and Tulip, which is the processing arm of Danish Crown, (producing such items as minced meat and ham, as opposed to fresh and frozen cuts), are partly financed by equity from Danish institutional investors.

Critics of the co-operatives say the industry has been slow in embarking on production of more highly processed foods, such as charcuterie products and convenience foods, but Mr Kjeldsen rejects that charge. "Most of our exports are high-quality, processed raw products. We obtain attractive prices, for example, for our pigmeat exports to Japan, because we make products with a uniform high quality. We would earn less if we went into highly processed convenience foods and sold them under our brand names, a business that requires an enormous investment."

Although the farmers are enduring tough times at the moment, Mr Kjeldsen is not discouraged. "When young people ask me if there is a future in farming, my answer is: Yes. There will always be problems, but there are problems whatever sector you are in. A well-educated farmer has a good future in Denmark," he says confidently.



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DANISH FOOD INDUSTRY II

Bjorn Westh, the minister of agriculture, talks to Hilary Barnes

Coping with the challenge of Gatt

Denmark has a position of strength in food production which offers opportunities for development, says Mr Bjorn Westh, the minister of agriculture who some time ago tipped to become his country's next EU Commissioner.

"We do not think there is anything old-fashioned about producing food," he declares in an interview. "The food industry gives rise to 25 per cent of employment in Danish industry. It brings in about Dkr55bn (£5.7bn) a year in export revenues, and export revenues are required to keep the welfare state going. If we want to develop the welfare state we must have jobs in industries which earn foreign currency, and in the food industry we have a position of strength that we must utilize."

This might seem a bold com-

mitment at a time when European agriculture is being forced by reforms of the common agricultural policy and the Gatt deal to curb production and exports. Mr Westh does not dispute the fact that the future of Danish agriculture and its related export industries is dependent on how the European Union reacts to the Gatt.

On the other hand, he does not have much time for calculations which show that Danish farm incomes will be cut by Dkr2bn or so - 7 or 8 per cent of gross factor income - by Gatt. "They don't take into account the new market opportunities, so they are unhelpful, static calculations. The world does not stand still, and Denmark is not standing still."

"On our part, we want the European Council, in connec-

tion with this year's price negotiations, to approve a declaration calling on the Commission to work out a strategy by which the European countries can utilise the new market opportunities which the Gatt will provide."

Mr Westh is referring to the obligation of Gatt signatories to allow at least 3 per cent of their food supplies to be

imported, rising to 5 per cent after five years. "We see Gatt as a challenge, and we must go on the offensive. We must ensure that we are active and that it is not the Americans,

the New Zealanders or the Cairns Group countries who run away with everything," he says.

As the Gatt calls for a reduction in exports of subsidised products, "we want to put the Commission to work to see if we cannot abolish or reduce export subsidies."

The EU corn price is still

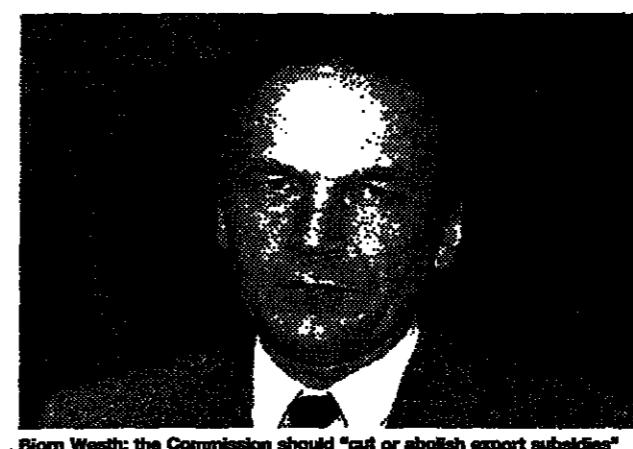
10-15 per cent above the world market price. If we can bring it down to the world market price, corn exports would not be subject to export subsidies, and neither would products based on corn, such as pigmeat and poultry. A side-effect of this would be that we would no longer need obligatory set-aside policies."

This view finds support in the UK and France, he says, but other EU countries will resist it. However, he points

out that if the EU does not succeed in adopting policies which allow exports to third (ie. non-EU) countries, Denmark will have to sell large quantities of dairy and pigmeat products in Europe, with a painful impact on prices. "I think this argument will mean that some countries will begin to listen to what we are saying."

As Mr Westh sees it, Danish food exports will not compete with exports from developing countries, at least not directly. "We shall compete in markets where there are consumers who want high quality products and have the means to pay, especially markets in south-east Asia, such as Japan, Korea, Singapore, some South American markets and the Nordic market."

"Danish agriculture will try



Bjorn Westh: the Commission should "cut or abolish export subsidies".

look around the world you see the environmental issues coming into focus. We have a good chance of handling these problems successfully, not only because we started to tackle them early on but because we have a structure which makes the problems easier to tackle. You only have to look at a big food producer like Holland, which has twice as many animals and three times as many people in an area a third the size of Denmark."

Legislation which restricts the number of farms that one farmer may own or lease, and regulates the number of animals per hectare of land, will prevent the establishment of gigantic pig farms, however.

"We do not want individual units to be too big. There are veterinary and health dangers in very big units. In return we have told the farmers that they can own and lease more units."

"This goes together with our quality approach. We do not want a policy which encourages a policy of medicines, and we want the farmers to be able to keep an eye on the health of the animals," he says.

Tony Jackson on Danisco, a big fish in its pond

The skill not to turn its back on the basics

The trouble with the Danish food industry, according to one of its most senior executives, is that its output is just too basic. Take meat and animal products, says Mr Elvur Vinum, chief financial officer of Danisco, the food group. "We're still selling raw materials too much. We have to do more to develop them."

Since Danisco makes much of its money from such basic activities as refining sugar beet and freezing peas, it might seem open to the same criticism. Not at all, says Mr Vinum. There is a lot of skill in freezing and distributing vegetables to the standards required by international food companies such as Unilever and Nestle. As for sugar, the company has more than 120 years of experience. It is a business in which efficiency is all; and Danisco, Mr Vinum says, is one of the two or three most efficient sugar refiners in Europe.

Danisco was formed at the start of 1989 through the merger of three publicly quoted Danish companies: Danish Sugar (much the biggest of the three), Danish Distillers - almost the monopoly Danish producer of spirits, especially aquavit - and Danisco itself, a maker of food ingredients. The motive, says Mr Vinum, was simply one of growth. Taken together, the three companies would have "more momentum".

The rationale of the new group was that it should be in "food-related" industries. This involved a lot of pruning: some 43 per cent of the original group by turnover, chiefly in engineering, has been gutted. At the same time, the group has been expanding in

packaging, both in corrugated board in the UK and Denmark and in flexible plastic packaging around the world.

This apparently paradoxical broadening of the portfolio is defended by Mr Vinum. "We've been in packaging for a very long time," he says. "It's a business we feel we knew something about." The packaging is mostly for food products, and the great bulk of it is for outside customers. It is not, in other words, an old-fashioned case of vertical integration. "We're not in packaging to provide it for our own products. It's a business on its own."

Although unusually large for a Danish company - fourth largest among the top 10 quoted companies in market value - Danisco counts only as a medium-sized food group in global terms. In 1992-93 its sales were Dkr13bn (£1.3bn), and its market value is about Dkr10.7bn (£1.1bn). However, it is plainly ambitious. Since the merger, and not counting the financial year 1993-94 just ended, it has spent Dkr6.5bn on acquisitions and the same amount again in capital expenditure.

The largest part of the investment, says Mr Vinum, has been in sugar. Besides being the Danish monopoly producer of beet sugar, Danisco paid Dkr3.2bn in 1992 for its opposite number in Sweden, making it the fourth largest producer in Europe. Also two years ago, it bought eight small sugar refineries in Germany and is just finishing the task of combining them into one European-scale plant at a total cost of a further Dkr1bn.

Acquisitions apart, a lot of the expenditure has gone on

the food ingredients subsidiary Grindsted, which grew out of the original Danisco. This is a truly global business, with new capacity recently installed in Denmark, the US, Mexico, Chile and Malaysia. Grindsted, says Mr Vinum, "is very well positioned for a long time."

Given that Denmark has the highest duty on spirits in the European Union, this was predictably damaging. Last year, Danish consumption of spirits fell 11 per cent, while the markets for beer and wine went up 2 per cent and 9 per cent respectively. The result, as Danisco points out, is to distort competition. Whether the government is prepared to go yet more revenue to set that right is not yet clear.

Either way, the company's attention is devoted much more to the international arena these days. At the start of this year, it undertook an international offering of Dkr1.15bn worth of convertible bonds, with around 70 per cent taken up by foreign investors. The goal, Mr Vinum says, is to get foreign ownership of the company's equity up to around 20-25 per cent. At present it is half that.

The company, in other words, is showing signs of outgrowing its native financial system. As it expands on the world stage, it seems not impossible that it will one day attract the unwelcome attention of one of the real giants of the food industry. So far, however, it remains a big fish in a respectably-sized Scandinavian pond.

Profile: WOLFKING

Market leader in meat machinery

Whenever you eat fast food, the chances are high that the ground meat in the burger, the chicken nuggets in the salad or the salami slices on the pizza were churned out by machinery from a small Danish company, Wolfking.

With few exceptions, the Danish companies which manufacture machinery for the food processing industry are small, but they often have a substantial share of the world market in their special area.

Wolfking is typical. At its headquarters in the town of Slagelse, on Sjælland, it employs about 200 people and has a turnover of about Dkr160m (£16.5m), but it is nevertheless a market leader in its field. About 85 per cent of its production is exported. Its biggest market, where it employs a sales and service staff of 25, is the US, followed by the UK, Germany and France.

The global range of its exports, which go to China, Japan, Korea, and South America as well as the US and Europe, has helped Wolfking

maintain its growth despite downturns in individual nations or regional markets.

Started as a family business in 1949, Wolfking has been a member of the Danish BfJ Group since 1978. BfJ is an unlisted private company with a turnover of about Dkr1bn, mainly from production of raw materials for the European food industry.

Since 1949, Wolfking's employment has more than doubled to more than 200 in Slagelse itself. In addition, it has sales and service companies in the US, the UK and Germany. It works through agents in another 30 countries or so. Two years ago it bought a Dutch company, Belam, which concentrates on ham production systems, with 50 employees. Altogether, the Wolfking companies have a turnover of about Dkr200m.

Wolfking produces all the machinery which is required by butchers, supermarkets and meat-producers of minced-meat products or hams from the point at which raw materials

are delivered to the final handling and portioning of the finished product (but not packaging machinery) - ranging through simple machines to semi- and fully-automated systems, including "grinders, mixers, emulsifiers, injectors, tenderisers, massagers, pumps, and transport equipment".

The acquisition of Belam is an indication of things to come. Other companies which have high-quality products and produce programmes are being sought to complement Wolfking's existing business.

Most of Wolfking's machinery is for the meat industry, but not all. The company also manufactures food pelleting systems for the fish-farming industry, machines for making processed cheese, and plant to produce fish-fodder for mink (which is no accident: Denmark is the world's largest producer of mink skins). Some of its equipment also goes to the pharmaceutical, bakery, and chemical industries, and producers of chocolate and sweets.

Where Wolfking has the edge over its international competitors, says Mr Jacob Dilling-Hansen, marketing manager, is in its supply of complete, fully-automated processing lines. "No one else makes such complete machinery systems as we do."

As a supplier of automated production systems, says Mr Dilling-Hansen, "we are cleaning up the market. Our share of the world market for systems of this kind is about 75 per cent."

Wolfking gained its first ref-

erence for this kind of system by delivering the equipment for a big plant operated by Tulip International, the Danish company, for minced-meat products at Vejle, Jutland. The plant was installed at the end of the 1980s. Since then, it has delivered complete systems to Germany, Spain, Norway and the UK, where its production lines turns out 75 tonnes an hour, 24 hours a day, six days a week for Spillers, the petfood group, near Glasgow.

The development of these large-scale systems has taken Wolfking into the era of computer-aided design and manufacturing and computer-integrated manufacturing systems. All project development, engineering and design is done on three-dimensional CAD network. Plant control software is developed in-house.

When machinery or complete systems are delivered, the same engineers who worked on production are sent to the customer to undertake installation and start-up, says Mr Dilling-Hansen.

One of the company's main pre-occupations is to ensure that its machinery meets the requirements of the European Union's machinery directive, which comes into force in 1995. The directive concerns hygiene and safety. "We expect that all our machinery will receive the 'CE' stamp by then," says Mr Dilling-Hansen, "and we think that many of our competitors will have trouble meeting the deadline."

As a supplier of automated production systems, says Mr Dilling-Hansen, "we are cleaning up the market. Our share of the world market for systems of this kind is about 75 per cent."

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■ ADVICE TO FARMERS

A model for eastern Europe

With 20m pigs in a country with only 5m people, it is clear that the focus of Danish agriculture must be on finding markets elsewhere. Farmers are increasingly geared towards producing for the export trade.

But it is not just pork and milk that are exported from Denmark; its farming advisory service has gained such a prominent reputation overseas that advisers are now exporting the "Danish model".

The Danish Agricultural Advisory Service is owned by producers and run in a similar way to the co-operatives which dominate farm output in Denmark.

Local advisers must answer to a board of farmers which also dictates priorities for research. This structure helps information to be disseminated as quickly as possible to a range of farmers.

The advisory service runs 95 local centres at a cost of Dkr1.1bn (£112m) a year: the government provides some of the funds but most is put up by

farmers themselves. The organisation runs a national headquarters at Skejby near Aarhus in Jutland, providing a resource centre for local advisers with a budget of Dkr23m. It also helps to channel requests to research bodies.

The system has been so successful in Denmark that its advisers are helping set up similar operations in eastern Europe. Danish agricultural advisers are currently working in Poland, and the three Baltic countries: Lithuania, Latvia and Estonia.

One of the advisers points to the difficulties of setting up a system which, in essence, is run by farmers on the ground in countries that have been used to receiving orders from the top. "We try to stress that we are supporting farming in the same way that fertilisers are: we are just one input," says Mr Niels Gert Nielsen, an international adviser.

The structure of the Danish farming industry, which

comprises some 70,000 mainly family farmers, makes it important that advice is offered at a local level and that the process involves as many producers as possible.

With the current emphasis

on reform of the common agricultural policy in the European Union, and all that involves in price cuts, farmers need all the help they can get.

Deborah Hargreaves

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January 1992 - December 1993

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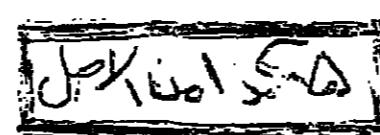
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Hilary Barnes



DANISH FOOD INDUSTRY III

Anyone who believes Danish business is parochial should look carefully at Carlsberg. Around the world, brewing is for the most part a parochial business: perhaps unsurprisingly, since a product consisting almost wholly of water is expensive to ship.

Carlsberg, however, sells less than 20 per cent of its beer in its home market. With the exception of Heineken of Holland - which Carlsberg sees as its main rival - no other big brewer has the same international reach.

In theory, at least, this is a very enviable position to be in. Rather like the tobacco industry, brewing in the western world has seen its prospects transformed in recent years by the opening up of vast new markets in China and eastern Europe. Unlike the tobacco companies, most of the world's big brewers are scarcely equipped to take advantage of the fact.

Carlsberg, by contrast, has been outward looking since its beginnings, if only because the smallness of its home market forced it to be. Founded in 1847, it first shipped beer to England in 1860. By the turn of the century, as Carlsberg executives will tell you today, it was putting up advertising posters in China.

The attraction of China is less powerful today. "By the turn of the century," says Mr Michael Juul, Carlsberg's head of international operations, "China will probably be the biggest [beer] market in the world, bigger than the US." At present, he puts the Chinese market at 70-80m barrels a year. His forecast is for 130m barrels or more.

As with tobacco, the overseas share of that market is still minute, if only because foreign beer is so much more expensive than the local brands. But Carlsberg has breweries in both Hong Kong and mainland China, and its subsidiary Danbrew - a spe-



Tony Jackson on the global reach of a brewer that (probably) exports more than 80 per cent of its output

Carlsberg sees China as top market



Michael Juul: "There will be a shake-out in Europe"

cialist in building breweries in the developing world - has built 10 breweries for Chinese customers to date.

Even so, Carlsberg is not currently the leading foreign brand in China. That position, it concedes, probably belongs to San Miguel of the Philippines - though, Mr Juul says, "there is very little information available."

Besides China, Carlsberg has big breweries in Vietnam and Thailand, and has spent the past five years trying to develop its business in Russia. Its chief advantage lies in its strength as an international

brand; and in this respect, Mr Juul says, its competition is "Heineken again and again". The big US brewers, owners of such domestically dominant brands as Budweiser and Miller, seem to have made little impact so far. However, given the record of US global brands Marlboro and Coca-Cola, it would be unwise to assume this state of affairs will last for ever. As Mr Juul remarks of the US brewers, "they certainly have the financial muscle".

To an extent, all this depends on how far brands manage to establish them-

selves as a global force in brewing, as they have in spirits or soft drinks. "In some mature markets," Mr Juul says, "you are getting cheap own-label products moving in. But in growing markets, you have a lot of people with social aspirations. And when it comes to beer, most of the [international] brands reflect higher quality as well."

But however global the future may prove, Carlsberg's immediate outlook is dominated by Europe, where it still sells around 85 per cent of its volume. This might suggest a kind of race between a big

UK brewer. The venture, known as Carlsberg Tetley, is one of the biggest brewers in the UK and, according to outside estimates, Carlsberg's half share contributes close to half the group's worldwide profits. This makes it all the more important that the two partners should see eye to eye. Allied recently went out of its way to reaffirm its commitment to the venture. But in the longer term, its ambitions are in the global business of wines and spirits, not the domestic business of UK beer. Carlsberg, Allied hints, is in the long run the more natural

owner of the business.

Mr Juul shrugs this off. "I don't know," he says. "You can have a married couple where one says 'I want a divorce' and the other still sees the marriage as happy. We are quite happy with the partnership. It had its problems at the outset, but any merger has. And Allied say they are committed and confident."

That apart, the European market is far from stable. "There will be a shake-out in Europe," Mr Juul says. "There is strong price competition in many markets, which will lead to a shake-out in production costs. Competition has also been promoted by concentration in the retail sector. A 'cheap' sector has established itself and gained some volume, and it won't go away."

Similarly, he argues, the UK market is in transition. "There is no doubt that brewing in the UK has to be rationalised. The cost per barrel being produced is in many cases higher than on the Continent. With further harmonisation of beer duty, the costs have to come closer together."

The obvious question is how far Carlsberg wants to play a part in that process. Suppose that, as some believe, the UK market - probably the most important to Carlsberg in the world - is doomed ultimately to end up a brewing duopoly along American or Australian lines. Does Carlsberg want to be a player?

Mr Juul does not answer the question directly. The duopoly hypothesis, he says, is a long way off. "In general terms, we like to spread our risk. But the UK market is one we feel comfortable with. We've been there a long time. When you go into a country like Vietnam, your knowledge of local conditions bound to be more superficial."

To venture a paraphrase: Carlsberg is looking to a brave new world, but it cannot afford to turn its back on the old world either.

A profile of Danisco

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DANISCO

Danisco A/S
Langbrogade 17
DK-1001 Copenhagen
Denmark



MD Foods' distribution lorry

Profile: MD FOODS

The target is Europe

MD Foods, the large Danish dairy co-operative, is delivering milk to British doorstep as part of a move to stretch its reach abroad. Through its corporate arm, MD Foods International, the co-op has bought into the UK market in advance of the coming liberalisation of milk production.

Mr Finn Christiansen, executive director of MD Foods, explains its international ambitions: "We'd invested very heavily in the rationalisation of the Danish dairy industry at the end of the 1980s and had got to the point where growth was stagnating."

Recognising the need to expand abroad, the co-op thought it could not ask its 10,600 farmers to put up the cash. "Emotionally, it's very difficult to get farmers to understand that we would be going to other countries and processing other producers' milk."

Four years ago, the co-op set up MD Foods International in which it owns a 62 per cent share, with the rest of the capital supplied by institutional investors. The Danish Dairy Federation, which represents dairy companies, contributed some overseas assets and the Danish Dairy Suppliers, a co-op which provides equipment to the industry, put up DKK100m (£10.3m).

Mr Christiansen stresses that MD Foods has targeted Europe as an area of primary interest since the company believes it will face restrictions on exports of dairy products to third countries as a result of the Gatt settlement. In 1990, the company began its acquisition route into the UK and it is also looking at moving into Germany.

The export trade is vital to Danish dairy farmers, who produce three times their domestic requirements. The UK, restricted by EU milk quotas to output covering only 85 per cent of its milk needs, is seen as an extremely important prize by overseas suppliers.

MD has spent £100m in the UK in the past four years, gaining 10 per cent share of the UK milk market. The liberalisation of the market will present good opportunities for us to work closely with farmers. That comes naturally to us as that's what we do in Denmark," Mr Christiansen explains. The opening up of the £3bn UK milk market will leave dairies to buy their supplies directly from farmers if they wish.

MD Foods controls 81 per



Finn Christiansen: sees opportunities in UK milk market

cent of the milk output in Denmark - 70 per cent directly and the rest in co-operation with Klover, another dairy group.

Milk production in Denmark has traditionally been quite fragmented with the average producer owning just 40 cows, but growing cost pressures are forcing dairy farmers to expand. Last year, the number of milk producers fell from 17,200 to 15,000 with the remaining farmers increasing in size. This is a trend that is likely to continue.

Mr Christiansen believes the whole of the EU dairy market is becoming more competitive as a result of the Gatt settlement. In the run-up to the implementation of the Gatt deal next July, dairies are positioning themselves on the European market and buying the market share at almost any price.

In April, MD secured an additional DKK50m to its annual investment budget of DKK500m specifically to invest in facilities for making products aimed at the EU market. The extra funds will probably be spent on producing mozzarella and other cheeses for the German market.

The big impact of the Gatt deal could come on the cheese market. Mr Christiansen believes Cuts must be made in subsidised exports of cheese to countries outside the EU - this will involve reducing subsidised exports to 305,000 tonnes by the year 2000.

At the same time, the EU must give access to its internal market to third countries. Mr Christiansen reckons the combination of these two measures will mean the EU market must absorb an additional 280,000 tonnes of cheese by 2000. "Prices are already being squeezed as people are trying to position themselves in the market in anticipation of the export cuts," he says.

MD Foods is also looking to increase its position in the European market for higher-value products as a way of securing market share under the rigours of Gatt. Mr Christiansen is keen to build on the success of its Lurpak butter brand in the UK and, since the butter market is declining, substitute cheese and dairy products.

A new cheese spread, which was launched in the UK last year, has not taken off because Mr Christiansen acknowledges that it was placed wrongly in the market and is too expensive. "We need to do more research into the type of product that will fit well into the UK," he says.

Its new Gaio yoghurt will be introduced in the UK later this year in the hope that it will enjoy the levels of demand found in Denmark. Since last October, Gaio has captured a 15 per cent share of the Danish

Continued on next page

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Denmark

Danish Crown, Denmark's largest pork company, has already started to feel the effects of the latest General Agreement on Tariffs and Trade deal. This year, the company has exported significant quantities of meat to Korea for the first time in its history. "It surprised us - we didn't expect it to happen so quickly," says Mr Kjeld Johannessen, company president. "Korea was a closed market for us."

European exports of pork - mainly frozen belly and collar - reached around 6,000 tonnes in the first quarter - with Denmark providing the lion's share. Mr Johannessen believes sales to Korea could increase to as much as 30,000 tonnes by the end of the year.

The opening up of new markets overseas is of vital interest to this huge pig co-operative since the export trade is its life's blood. In the 1992-1993 financial year to the end of October, 85 per cent of Danish Crown's DKK9.2bn turnover came from its export business and a third of sales were made outside the European Union. Its overseas sales make up 12 per cent of all Denmark's agricultural exports.

Deborah Hargreaves on how Gatt has affected Danish Crown, the country's largest pork company

Export trade is life's blood of pig co-op

"In general, the export market is a question of survival for Denmark because we produce many times our own needs," says Mr Johannessen.

One of the strengths of Danish Crown's marketing efforts overseas is its strong focus on quality products. "The consumer's focus on food safety is very important and that's why we like to control production from breeder to the end-user," he stresses.

Danish Crown is able to exert an influence on pig production through its co-operative set-up. The company has 15,000 farmers as members, all of whom receive a share in profits at the end of the year.

Farmers also shape company policy by electing representatives to an advisory committee which comprises 225 producers and 22 staff. That committee elects 12 members to the Danish Crown board of directors.

The co-operative set-up commands considerable loyalty

from farmers who see it as a market for their produce in a way that would be impossible for individual producers. While some farmers are tempted to sell to private operators as these often offer a higher price, they must leave the co-operative to do so.

"If someone is selling privately while still in the co-operative, he is spoiling the company for a quick profit and I will make him stop or he must leave," says Mr Niels Rovsing, a pig farmer who is a representative on the Danish Crown board.

Farmers are currently feeling the pinch from low pig prices in Denmark, where as in the UK, pork profits are depressed by overcapacity. Pig prices fell from DKK13.40 per kg two years ago to DKK8.60 per kg in January to March this year, pushing some producers out of business. "It has been very tough," said Mr Rovsing, who estimates that

about one pig farmer in 20 went out of business.

Prices are creeping back again now with the onset of the barbecue season and the market has reached DKK9.80 a kg. But Mr Rovsing stresses that, even though prices are

around 5 per cent more animals than it consumes, highlights the importance of Danish Crown's export sales outside the EU. The company delivers 11 per cent of its export sales to the Japanese market, but the high value of

the nation's pigs.

Danish Crown uses its high

standards of production and

the quality of its meat to differentiate itself from run-of-mill

producers in other countries.

This gives it a particularly

important edge in the Japanese

and Asian market.

Danish Crown's biggest mar-

ket still remains within the EU with Germany overtaking the

UK for the first time last year

as the most important destination.

Germany took 16 per cent

of the company's exports last

year with 13 per cent going to

Britain.

Danish Crown's efforts to market

its agricultural products overseas

have been very successful,

aided by the homogenous

domestic set-up which sees

large co-operatives controlling

most of the output.

Danish Crown is part of a

larger pork co-operative which

sells prices to farmers and pro-

duces a joint marketing cam-

paign. The Danish Slagteri,

is made up of five smaller co-

operators which between

them slaughter 96 per cent of

the nation's pigs.

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entiate itself from run-of-mill

producers in other countries.

This gives it a particularly

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and Asian market.

The company has over 100

veterinary inspectors who regu-

larly check on farmers' pig

herds. It insists that regular

disease checks are made on

pigs and that all food is tested

for salmonella before the ani-

mals eat it. "The co-operative

makes it easy to influence in a

short time what is being pro-

duced by the farmer," says Mr

Johannessen.

Along with the demand from

consumers for "clean" prod-

ucts and calls for free-range

pigs, particularly from the UK

market, Mr Johannessen sees a

move towards more old-fash-

ioned products with a tradi-

tional taste. Danish Crown has

worked with some supermar-

Profile: CHRISTIAN HANSEN

How rennet led to biotechnology

Given Denmark's long history in the world food industry, one might expect its food companies to have reached a mature old age. A striking exception to this is the Christian Hansen Group, which supplies food ingredients to multinational giants such as Nestle, Kraft, General Foods and BSN.

Christian Hansen was founded as long ago as 1874, specialising in the manufacture of rennet, the cheese ingredient used to clot milk and give the cheese its flavour. It is still the world's biggest rennet supplier, with about 20-25 per cent of the world market. The world cheese market is scarcely growing; however, that did not stop the company increasing profits last year by 30 per cent to DKK181m (£18.65m) before tax, and by 36 per cent the year before.

With sales of around DKK1.5bn (£150m), Christian Hansen is scarcely a giant. Neither is it a financial minnow, being heavily involved in the glamorous business of biotechnology.

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on cross-border mergers & acquisitions

fungi or bacteria and qualifying for use in the growing market for vegetarian cheese. Then, some five years ago, it began producing genetic rennet, made by replicating the animal rennet but still qualifying as vegetarian in, for instance, the UK market.

In genetic rennet, it is commonly taken to refer to genetic engineering, in which Hansen is involved to some extent. But Mr Hansen says, the company's origins in the dairy industry mean it has been involved in biotechnology from the outset: in enzymes and bacterial cultures, which exist in nature but which the company began by producing in pure standardised form.

The development can be illustrated by reference to rennet, which made up some 90 per cent of the company's sales as recently as 20 years ago.

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BUSINESS AND THE LAW

Intellectual rights given precedence



Where intellectual property rights conflict with the interests of free competition, intellectual property rights should take precedence, according to a preliminary opinion of the European Court of Justice.

The interests of undistorted competition should prevail only where the exercise of a given intellectual property right was not necessary to fulfil the essential function of that right, according to the opinion of Advocate General Gulmann in the appeal in the Magill TV Guide cases.

The cases concerned attempts by Magill to publish a comprehensive weekly television guide. Copyright in TV scheduling information belonged to the BBC, Independent Television Publications and the Irish broadcaster, Radio Telefis Eireann, all of which published guides of their own listings. The companies licensed daily and weekend comprehensive guides.

Magill complained to the European Commission. The Commission found the three companies had abused their individual dominant positions by preventing the publication and sale of comprehensive weekly TV guides in Ireland and Northern Ireland. It ordered them to supply each other and third parties with their individual weekly listings - that is compulsory licensing. The companies appealed to the Court of First Instance, which found in the Commission's favour. They then appealed to the ECJ.

Before dealing with the points raised by the parties, Advocate General Gulmann made some remarks on the special nature of copyright. He said by their nature copyright laws give copyright owners the right to restrict competition. He also noted that the copyright laws of the member states generally balance the interests of copyright owners and undistorted competition by restricting the exclusive rights of copyright owners in certain ways, such as giving others the right to make certain use of copyright material on payment of a royalty.

He said that, although such a balancing of interests did not preclude further limitations on the copyright owners' exclusive rights

on the basis of the EC Treaty's competition rules, it did mean that caution should be exercised.

Six grounds of appeal were lodged in total by the parties and interveners. The only ground on which the advocate-general thought that the appellants should succeed related to the concept of abuse of a dominant position.

The appellants claimed the CFI had misconstrued this concept and its judgments should thus be annulled. The CFI had upheld the Commission's finding that the refusal by the parties to grant licences constituted an abuse of a dominant position.

The central issue was whether, and if so under what circumstances, a refusal to grant a copyright licence could constitute an abuse of a dominant position.

It was agreed a refusal to grant licences in itself did not constitute an abuse. But there would be occasions where such a refusal had been exercised under such special circumstances that it created an unacceptable obstacle to undistorted competition and therefore the copyright owners' rights should be restricted by EC competition rules. But, the advocate general stressed that, given that compulsory licensing was a serious interference in copyright, there had to be substantial and weighty competition grounds if the right to refuse copyright licences were to be regarded as unnecessary to fulfil the essential function of the copyright.

He considered some of the CFI's findings on this point were flawed and not sufficient to be considered special circumstances. For example, the CFI found the copyright owners' rights were capable of being restricted because their refusal to grant licences prevented the emergence on the market of a competing new product.

But the advocate general considered such action could be taken only where a refusal to grant a licence prevented a non-competing product's emergence. Where a competing product was restricted, copyright owners' interests should prevail over those of consumers.

Joined cases: C-241/92P and C-242/92P: RTE and Independent Television Publications, Opinion, June 1 1994.

BRICK COURT CHAMBERS, BRUSSELS

In April, Arthur D Little, the Massachusetts-based management and technology consultants, obtained an injunction from a California Superior Court judge banning Electronic Data Systems, an information-services subsidiary of General Motors, from soliciting its employees anywhere in the world.

The move followed a lawsuit filed by Little alleging that EDS had unfairly hired away almost the entire staff of Little's aerospace consulting practice, resulting in a significant loss of business.

The sweeping nature of the injunction surprised corporate America. Although companies frequently threaten legal action when one competitor poaches another's talent, cases rarely reach the courts. Broad prohibitions on soliciting employees are rare. The 13th amendment of the US Constitution guarantees citizens the right to work for any employer they choose if that employer wants to employ them.

EDS is considering an appeal. But if the injunction is upheld on appeal, do US companies need to reconsider their hiring policies?

EDS denies it has done anything wrong. Mr Mark Fox, an EDS spokesman, says: "We believe the suit is without merit and the injunction is without merit."

The lawsuit should be put into perspective, he says. EDS has built up a management consultancy of 1,100 people from scratch in two years. Of that number, 30 worked in the aerospace field and, of those 30, eight were former Little employees.

"We're building something very exciting, of which aerospace is a key area. People are attracted to that and are keen to work for us. But we've done nothing to twist their arms or use illegal means to bring them in," he says.

So why did Little bring the action? Mr Sam Gallo, the company's general counsel explains that the poaching of almost its entire aerospace consultancy was an unprecedented event. "Over the years many people have moved in and out of the company, but we've never had a situation where an entire practice area was essentially raided from the firm," he says.

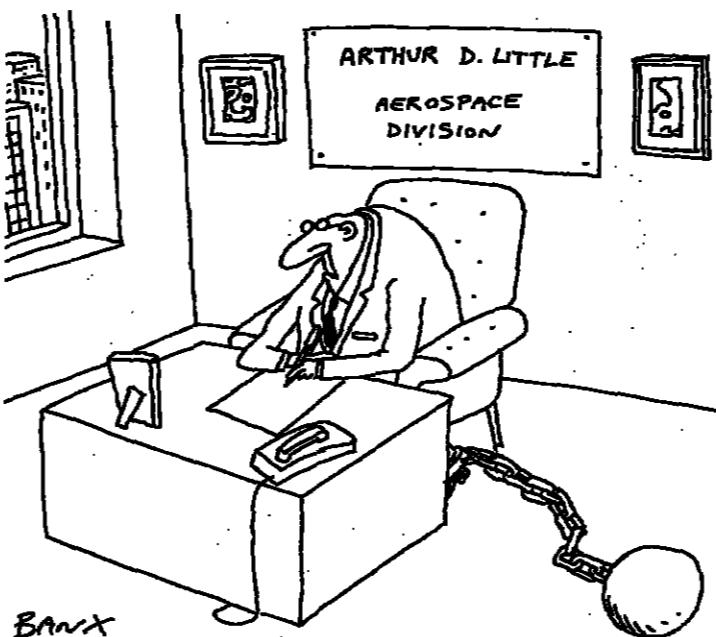
When Little subsequently discovered that EDS was attempting the same thing with its metal industries consulting practice, it felt it had little choice but to take legal action.

Mr Gallo says the suit has three parts. Little is suing EDS for unfair competition under the California Business and Professions Code; theft of trade secrets; and for inducing Little employees to breach fiduciary duties to the company.

It is also suing Mr Charles D Scales, former head of the aerospace consulting practice, for breach of

Headhunting season closed

Robert Rice on a US injunction that limits poaching of a rival's staff



fiduciary duty and contractual obligations. Little alleges that, while still working for the company but after being hired by EDS, Mr Scales used his influence and position as an officer of the company to persuade colleagues to move to EDS.

Finally, Little is suing Heidrick & Struggles, an executive recruitment firm. Little alleges the firm acted improperly by helping EDS recruit members of its aerospace group while Little himself was a client of the headhunters. Heidrick & Struggles denies it acted improperly.

Having filed the lawsuit, Little then sought a worldwide injunction to preserve the status quo until trial of the action. Its intention was not to prevent any Little employees from applying for jobs at EDS but to stop EDS from approaching any more Little staff around the world.

Mr Gallo says that, to get the injunction, Little had to satisfy the judge it was more likely than not to win the lawsuit. "He must have been satisfied we had a strong case," he added.

Does the sweeping nature of the protection gained by Little have broader implications for US businesses? Mr Jeffrey Kingston, a partner of San Francisco-based Brobeck Phleger & Harrison, says there are several dimensions to the case.

At one level the lawsuit seemed a straightforward Bancroft-Whitney v Glen claim - the 1860 case which established the principle under California law that it is a civil wrong or tort to conduct a raid designed to cripple a competitor by luring away a group of its employees.

"It's fairly difficult for a plaintiff to prove that, if the raid delivers a crippling blow, then it's a tort for which damages are payable," says Mr Kingston.

The action against Mr Scales was more commonplace, he says. If a manager, before leaving a company, induces employees under his supervision to leave with him, it is a breach of his fiduciary duty of loyalty to the company for which he could be held liable in damages.

Few of these cases reach the courts, however, because where only one or two employees have been lured away it is hard to quantify damages. Where, on the other hand, a large group of employees has been lured away, as is alleged in this case, such an action becomes more viable as the damages can

be more easily quantified.

In the Little case the hiring away of almost an entire practice group is said to have crippled Little's San Francisco consultancy.

The case was also about theft of trade secrets, says Mr Kingston. The allegation is that EDS misappropriated Little's trade secrets by using Mr Scales' inside knowledge about employees at Little and their terms and conditions of employment to lure them away. Such knowledge would not normally be available to outside headhunters.

Overlaying all this, however, is the allegation that the EDS action amounted to unfair competition in breach of the California Business and Professions Code.

According to Mr Howard Fine, a partner in the San Francisco office of Baker & McKenzie, if the Little claim is upheld by the courts it would represent a novel application of the unfair competition law.

By granting the injunction the court appeared to be saying that, where a company undertakes a targeted business programme to undermine a competitor by picking out its most gifted employees, that would amount to unfair competition.

The unfair competition law could not be used to block EDS from soliciting one or two employees, he adds.

To succeed when the action comes to trial Little will have to show a concerted plan by EDS to damage its aerospace consultancy.

That may prove difficult, he says, unless it can produce evidence such as internal EDS memos planning to target Little employees.

Unfair competition cases normally involve allegations of unfair business practices and other restraints on competition. Mr Fine says, "If the Little case goes to trial it will represent an important development in the law."

But most lawyers believe the case will be settled before going to trial. Mr Fine says the likely course of events is for the two sides to reach an agreement that the defendant company will not solicit the plaintiff's employees for a certain period of time. Provided it does not restrict the freedom of individual employees to work for whomsoever they choose, such an agreement could provide the basis of an amicable settlement, he says.

Mr Fox says EDS are anxious to move on and put the dispute behind them. Mr Gallo says Little are "not averse to settling it" on the right terms. Clearly, a settlement would make commercial sense for both EDS and Little. But if they do settle, the uncertainty surrounding this area of the law will continue, and that may be in nobody's interests.

LEGAL BRIEFS



Survey finds UK conveyancing best in Europe

International property investors believe the UK has a better legal system for property transactions than other European countries. They also prefer the UK's tax structure, according to a survey conducted by Gallup for international property consultants Richard Ellis.

The survey of 68 institutions - which included Japanese life companies, French insurers, German open funds, Dutch pension funds, Hong Kong entrepreneurs and UK institutional investors - found that half of those questioned thought the UK's conveyancing system was preferable to others in Europe. Only 16 per cent thought it was worse. On the tax system, 44 per cent thought the UK was better than its European rivals.

UK chartered surveyors were also rated more highly than their European counterparts by 71 per cent of those questioned. But more than one-third of those surveyed thought London's status as a world financial centre had declined in the past five years and 26 per cent believe it will decline further.

Mediation costs

The Centre for Public Resources, the New York-based alternative dispute resolution organisation, has announced that business disputes involving \$1.7bn were resolved successfully last year through the use of mediation and other forms of dispute resolution. CPR says 150 of the companies involved in mediation estimated direct legal cost savings of \$37.5m, an average of \$250,000 per company. Disputes resolved in 1993 by CPR mediators included anti-trust, bankruptcy, construction, employment, energy, environment, intellectual property, libel, professional fees and asset transfers.



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Comrades at arms

Rex Whistler was never a war artist in the now conventional sense: he was, rather, an artist who chose to be a soldier and went to war. He had tried for a commission in the Territorials after Munich, and volunteered again when war was declared in September 1939 although, at 35, well over-age for call-up in the normal way. "I have a strong feeling", he told a friend, Kenneth Rae, "that if anyone has to go and fight, it is precisely people of my age, and not the young boys." By then no new commissions were being given through the ranks, with the Brigade of Guards

vey finds Ievavance in Europe

and waiting between Dunkirk and D-Day, Whistler had become a true soldier, imbued not just with his personal sense of duty as an army officer, but with the ethos of his regiment, and a guards regiment at that.

He had turned down camouflage work, and had been given every opportunity to apply for a job on the staff. He had friends quite literally at court, on one notable occasion being summoned, a mere subaltern still, "to dine with the King & Queen at Sandringham last Tuesday". And went there with my Col & General & an officer or two from the Guards & Bde HQ... very informal and everyone in such good spirits." He could so easily and honourably have excused himself from active service but was adamant. "If you try to stop me", he told his squadron commander, "I shall kill myself."

It is easy to make a hero of a man especially so naturally modest and likeable a hero as Rex Whistler – one of the most delightful men the Welsh Guards have ever carried on its roll...," said his commanding officer – and a reputation as an artist can so easily be elevated in proportion. The method of this delightful and, in the end, poignant exhibition of Whistler's war-time work is that it allows us to see it for what it is, through all the fuse of personality and circumstance.

As a painter he is not all that remarkable, uneven yet capable on occasion of great charm and even power in a particular image – the portrait of the battalion's master cook for example; a tiny Essex landscape painted the weekend he joined up; the officers' mess under canvas in the Welsh Guards' Plain; a self-portrait in his new uniform. He painted constantly, portrait studies of friends and fellow officers, genre scenes of military and domestic life, the gardens and interiors of the houses he visited on leave. There is a sense that in this time he was beginning to come to himself as a painter, and this body of work does stand as a particular record of the war on the home front.

But it is as a draughtsman and designer that Whistler shows himself as being truly remarkable. His pre-war reputation rested largely on his mural decorations for the restaurant at the Tate, executed in the

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The Master Cook: Sergeant-Cook J.W. Isaacs, c. 1941 by Rex Whistler

1920s, and on his work as an illustrator. Through the war such freelance work continued as military duty allowed, including a number of major commissions for stage and film design. But what is more interesting is the degree to which such activity was not independent of his life as a soldier at all, but part of its very fabric.

He was draughtsman and designer in his very nature, reacting spontaneously to every turn of

the military life in terms of line and image. A diagram of the lay-out for kit inspection became an elegant and wryly instructive work of art. A suggestion to the colonel of

the mess became a lively before-and-after cartoon, after the manner of a Rowlandson. Who but Whistler would think to decorate the visitors' book of the travelling cinema, come to entertain the troops? Pastiche Old Masters for the now-refurbished

Rex Whistler's War: The National Army Museum, Royal Hospital Road SW3, until September 18.

Concerts in London

All admiration for Zimerman and the Nash

The Polish pianist Krystian Zimerman's packed recital at the Royal Festival Hall on Thursday night had a most unusual programme, at first sight biting, consisting of a string of variation sets by improbably assorted composers, writes Paul Driver. However, his playing not only justified five of his six choices – sometimes making undistinguished music sound much better than it is – but nearly authenticated the sequence as an artistic whole.

The playing is utterly compelling, flawlessly virtuosic, muscular and suavely lyrical by turns; equally capable of the most limp defences and most massive quasi-orchestral grandeur; and always informed by a questing, unorthodox musical intelligence, which was evident in the delightfully quirky programme notes he provided as well as in such astonishing performances as that of the opening item, his own (1973) transcription of Bach's Passacaglia and Fugue in C

minor, BWV 582. I would never have thought that two hands on one piano could produce so detailed and convincing an impression of a full organ as this.

Cheekily, he followed the gigantism of this piece with a translucent miniature allegedly by the eight-year-old Schubert, *Seven Easy Variations* in G, receiving their British premiere. However, his playing not only justified five of his six choices – sometimes making undistinguished music sound much better than it is – but nearly authenticated the sequence as an artistic whole.

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piano recital (24-hour information service 020-757 4411 ticket reservations 020-671 6345). Beurs van Berlage Frit: Hans Zender conducts Klangreise Wien in his arrangement of Winterreise, with tenor Hans-Peter Blochwitz. Sat: Aleksander Laszczak conducts Bellotti Symphony Orchestra and Chorus in Mahler's Second Symphony. Sun: Mark Foster conducts Radio Chamber Orchestra in works by Chinese composers (020-827 0466).

Many of the above events form part of this year's Holland Festival, which continues till June 30 with highlights including Peter Brook's *The Man Who*, rare operas by Chausson and Massenet, and performances tomorrow and Thurs at Stadsschouwburg of Peter Zadek's Berlin Ensemble production of Shakespeare's *Antony and Cleopatra*, starring Eva Mattes and Bernhard Minetti. For information and tickets, contact Netherlands Reservations Centre tel 070-320 2500 fax 070-320 2611.

Concertgebouw Tonight: John Eliot Gardiner conducts semi-staged performances of Don Giovanni, with cast headed by Rodney Gilfry and Lucia di Lammermoor. Tomorrow, Thurs, Sat: Yossi Sivanid conducts Netherlands Philharmonic Orchestra in works by Wagner, Mendelssohn and Tchaikovsky, with violin soloist Jaap van Zweden. Thurs (Kleine Zaal): Mihailo Shilai, Tabee Zimmanman and Hartmut Höll in a programme inspired by Schubert's Winterreise. Fri: Yevgeny Svetlanov conducts Hague Philharmonic Orchestra in Tchaikovsky, Franck and Ravel. Sun: Krystian Zimerman

Pappano conducts first night of Karl-Ernst and Ursel Herrmann's production of La traviata, with cast headed by Elżbieta Szmajka, Laurence Dale and Victor Ledbetter. Repeated June 11, 14, 17, 21, 23, 26 and 29 (02-218 1211).

Palais des Beaux Arts Frit: Krystian Zimerman piano recital. Sat: Marc Soustrot conducts Belgian National Orchestra and Brussels Choral Society in works by Fauré, Chausson and Walton (02-507 8200).

■ GENEVA

A new production of Lohengrin opens at the Grand Théâtre on Fri, conducted by Christian Thielemann, staged by Robert Casen and designed by Paul Steinberg, with a cast headed by Thomas Moser, Hartmut Walker, Eva Johansson and Marilyn Zschau. Repeated June 14, 17, 20, 24, 27, 30 (022-311 7509).

■ THE HAGUE

AT&T Danstheater Tomorrow, Thurs, Fri, Sat: Nederlands Dans Theater presents a programme inspired by Dutch constructivist painter Piet Mondrian, with new choreographies by Jiri Kylian and Hans van Manen. Thurs, Sat, next Mon (in repertory till June 24): Riccardo Chailly conducts Loris Pascual's new Netherlands Opera production of Falstaff, with cast headed by Bruno Fratello (020-285 5455).

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PERSONAL VIEW
I doubt there were many Financial Times readers who failed to have a hearty sigh of relief in April when ministers

signed the Uruguay Round deal in Marrakesh. Relief, partly because most of them must have felt war-weary after eight years of reading about seemingly interminable negotiations and partly — perhaps predominantly — because they understood just how vital the deal really was.

The results of those negotiations will be implemented as from January 1 1995 when the World Trade Organisation comes into being. One can only hope that the major players will not make the process of ratification — which is required before we can finally confirm the implementation date — into an agony of indecision and delay. The birth of the WTO should not be held hostage to domestic political in-fighting — nor to transient trade squabbles, which tend to be of mind-withering inconsequence when measured against the crucial importance of the new multilateral trading system.

But even when the WTO is in place there will be a temptation, in some capitals at least, to revert to "business as usual"; perpetuating the same kind of preoccupations, justified or not, with respect to bilateral trade balances, alleged "unfairness" in trading practices and so on. It is important that we recognise that the WTO is a response to continuing global changes, economic and otherwise, and that, as a consequence, its activities have to be seen against a background of much more than big-power trade politics.

It will be a truly multilateral institution seeking multilateral responses to the economic problems faced by a large continuum of countries. This is not to talk of "world government"; it is simply to face up to the inter-linkages between economies. It is also to reassess the spirit of the Uruguay Round in finding meaningful, practicable approaches, acceptable to all, which drive forward the creation of wealth and sustainable development.

Establishment of the WTO does, though, call for a new commitment to co-ordination in economic policymaking. Why? Think for a moment about one key preoccupation of most governments at present: education and training in the context of unemployment.

Spirit of new trade order

Peter Sutherland on making the Uruguay Round effective



Peter Sutherland: WTO is a response to global economic changes

There is a convincing argument that expanded trade between the developed and developing worlds has in the past few decades and particularly since the mid-1980s, led to significant employment shifts in both. And it is not a simple matter of jobs lost and gained. While the extent of jobs lost in certain industries and gained in others in the developed countries can be debated, it seems clear that trade with the developing countries has tended to favour the skilled against the unskilled and exacerbate the gap between them. At the same time, in developing countries, export-oriented policies have encouraged a faster rate of learning and investment in education. This has opened up a gap between those with little or no education, who are unlikely to be involved in anything but the most rudimentary manufacturing activity, and those with at least a basic level of education.

This is an important observation. The results of the Uruguay Round, and particularly those related to increased market access for goods and services, are designed to expand trade; certainly between developed and developing countries in the process of economic reform. Thus, the impact of recent trade growth on skill demands and on the gap between skilled and unskilled, educated and uneducated may be reinforced and, perhaps, accelerated over several decades.

Nor is it just concessions on market access which will spur demands on education and training. New opportunities will be opened up through the intellectual property agreement — encouraging technology transfer, for instance — and the services deal will lead to the establishment of foreign service providers requiring skilled, educated employees. And this should not be seen as a one-way process; opportunities for the development of new skills will be as great in industrialised as in developing countries.

The real question that arises is whether we are thinking hard enough about the machine.

ery which will help governments identify and respond to such trends.

After all, it is evident that the most important influences on national economies are now, and will be increasingly, outside their borders. As a consequence, most governments will be left with few policy instruments with which to attempt to affect the performance of their own economies. If that is the case then it is vital that the international machinery be effective.

I have argued previously that the present machinery of the G7 is now inadequate. On almost every measure, it is an unrepresentative organism and, consequently, its deliberations seldom have meaning or relevance for countries outside the select group — not always, indeed, for those inside. That is a big loss. The fact is that the G7 countries must recognise that they cannot take sole responsibility for the broad thrust of economic management without adequate participation of the countries representing new dynamic markets in the developing world. There is a need for a grouping of countries that can be more effective and representative with some participation, perhaps, on a rotating basis.

But the key to making such a group effective is not only representation but the input participants receive. Here, the multilateral institutions must now get their act together.

At present we have a multitude of researchers and analysts in a multitude of organisations producing countless papers and reports to be added to those produced by governments themselves. Why should the organisations concerned with money, finance and trade — the International Monetary Fund, the World Bank and the WTO — not evolve a single coherent statement on issues of economic concern to a representative forum of the world's leaders? And in order to ensure implementation of the decisions reached, the same organisations should co-ordinate more effectively to give strong institutional support.

One thing is for sure. We must concentrate on the long-term implications of the agreements which have been reached and must be implemented by the WTO and on the way in which this new multilateral trading system will spur new approaches to global economic management.

The author is director-general of the General Agreement on Tariffs and Trade

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FINANCIAL TIMES

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Tuesday June 7 1994

Future of the OECD

The fiftieth anniversary of the conference at Bretton Woods is focusing attention on the International Monetary Fund and the World Bank. Completion of the Uruguay Round is set to transform the General Agreement on Tariffs and Trade into the World Trade Organisation. The end of the secretary-general's current term of office in September ought to force a similar re-evaluation of the Organisation for Economic Co-operation and Development. What justifies such re-appraisals is not these anniversaries, but fundamental political and economic changes. Institutions that underpinned past successes must be kept up-to-date, if they are to serve well in future.

The OECD is unique by virtue of its limited membership, now 25 (following Mexico's accession in April), along with the wide range of areas it covers. These include all aspects of economics, statistics, agriculture, trade, energy, the environment, public sector management, education, employment and social affairs; science, technology and industry; and fiscal, financial and business policies.

Affiliated to it are the International Energy Agency and centres for advising former communist countries and research on economic development.

Many significant initiatives have emerged from discussions in the OECD, since it replaced in 1961 the Organisation for European Economic Co-operation, itself the overseer of the Marshall Plan. One was how best to respond to the structural shocks of the 1970s. Another was the secretary-general's analysis of producer and consumer subsidy equivalents in agriculture. Yet another is the effort, on the agenda of this week's ministerial meeting, to promote a consensus on measures to lower unemployment. The OECD plays a central role in the preparation of internationally comparable statistics, which help debates on such subjects as health ageing and the environment. It has also become the chosen forum for negotiations to limit subsidies to shipbuilding and export credit.

The OECD needs to remain the focal point for inter-governmental discussion of this wide range of topics. But it will also have to advise governments and to a wider public.

Soap wars

Since the late 1980s, multinational managers have been repeatedly urged to "think global, but act local". When first coined, the axiom was intended to correct the then common misconception that the opening of international markets meant that consumer demand was identical everywhere.

Today, there is a wealth of business school case studies demonstrating the error of that assumption. However, the recent war of words between Procter & Gamble and Unilever, two of the world's biggest consumer goods manufacturers, suggests a rather different conclusion. The hostilities centre on P&G's allegations that a new Unilever detergent, which contains a patented cleansing technology, rots clothes.

The origin of Unilever's embarrassment lies not in the difficulty but in the relative ease of marketing across borders. That, indeed, has become essential in the detergents industry, where steadily fiercer competition has eroded producers' traditional positions in national markets. Increasingly, success depends on being the first to develop new products and launch them simultaneously on many world markets.

Though P&G's allegations may prove baseless, and Unilever's faith in its new product vindicated by consumers, the incident points to a wider lesson. As pressure grows on manufacturers to innovate faster and expand their sales efforts across borders, they are also obliged to confront much bigger risks. In the days when they began by selling products just on their home markets, any hiccups could be attended to before they were launched abroad. Today, they can become a global headache from day one.

Furthermore, the advantages procured by global product launches can be short-lived because they can often be quickly copied by competitors. Unilever has sought to combat that problem by using patented technology in its new detergent. But that is difficult in most other consumer products. From ice cream to nail varnish, makers of good new products invite ever earlier a horde of global imitators. For them, the challenge of the 1990s is no longer learning how to cross borders, but how to survive thereafter.

Revive the OAU

South Africa's admission to the Organisation of African Unity at the weekend will provide an opportunity to breathe new life into a discredited body. Since its inception in 1963 the OAU has been preoccupied by apartheid, but its contribution to the ending of minority rule was negligible. Instead, South Africa became a convenient rallying point for leaders wishing to divert attention from their failures at home.

OAU summits, rightly denominated minority rule in South Africa, but against human rights abuses in member states. The organisation has also neglected its role as a mediator in African conflicts. It belatedly recognised the continent's economic crisis, but still seems reluctant to endorse the fundamentals of structural adjustment.

Some of the more forthright leaders, such as Uganda's Yoweri Museveni, have made refreshingly frank appraisals of the OAU's performance. But only President Nelson Mandela can bring the combination of qualities that the OAU needs if it is to be rejuvenated: moral authority, economic clout, military muscle and, above all, the inspiration of South Africa's success.

The European Commission must make up its mind tomorrow whether its rescue plan for the steel industry is dead, alive, or in suspended animation.

Three weeks ago, the answer seemed clear. Mr Karel Van Miert, competition commissioner and co-architect of the plan to cut surplus steel-making capacity, confessed to failure. "We have fallen well short of our target," he declared. "The plan is dead."

Mr Van Miert's pronouncement spread confusion through Europe's steel industry. In spite of his outburst, the Commission has since worked hard to rebuild the shattered girders of its steel policy. For without a guiding hand from Brussels, officials believe the industry has few incentives to cut the EU's surplus of 19m-26m tonnes of steel products a year.

Officials insist that the EU rescue plan is the best hope of preserving Brussels' controls on state aid. "Without this political framework plan, we risk a free-for-all on state aid in a market which remains extremely fragile," says one Commission steel expert.

Inevitably, questions are being raised about Mr Van Miert and his motives for disavowing a plan with which he was intimately associated. The answers reveal much about the inner workings of the Commission as the 10-year reign of Mr Jacques Delors as president draws to a close.

Mr Van Miert, a protégé of Mr Delors, has tried every trick to cajole steel-makers into making cuts, but he has struggled to overcome the resistance of the state-owned and private sector, which can usually count on national government support.

● In Spain, Prime Minister Felipe González extracted a high price for closing capacity in the volatile Basque region, winning approval from Brussels for the construction of a modern steel plant at Sestao.

● In Italy, a reluctance by the Commission to undermine a reform-minded government slowed down capacity cuts in 1993. Today, efforts to eliminate steel mills in the northern Brescian region remain sensitive for the new Berlusconi government and its Northern League political partners.

● In Germany, Chancellor Helmut Kohl has fought to protect the Eko-steel plant in former East Germany. In West Germany, the failure to close the loss-making Klöckner works near Bremen last year was a hammer blow to the EU plan.

In the more liberal camp, the UK and the Netherlands have remained sceptical about the effectiveness of the Commission's role, partly because information on closures and state aid from member states is inadequate. Private companies such as the British Steel Corporation

Girders fall back into place

Lionel Barber says Europe's rescue plan for the steel industry may be revived in a more acceptable form

EU steel industry: rescue plan resuscitated



Karel Van Miert
EU competition commissioner

insist that the Brussels plan is tilted in favour of the state-owned sector.

This mutual suspicion formed the background to last December's meeting when EU industry ministers finally put their seal on a deal which offered Ecu 7bn in subsidies to state-owned companies in Germany, Italy, Spain and Portugal.

The main *quid pro quo* was an agreement by the companies to close 5m tonnes of capacity, end to state aid, and a new deadline of September 1994 for meeting the 19m-tonne reduction in capacity.

Somewhat ruefully, Mr Van Miert now admits that there was always an element of creative fiction and mutual bluff involved in the plan. Yet this was inevitable from the moment that the Commission stepped into the crisis. Both Mr Van Miert and Mr Martin Bangemann, industry commissioner, have consciously adopted a different approach from the early 1980s when Brussels cast itself in the role of organising the steel market under

the so-called "Davignon plan".

The plan - named after Mr Etienne Davignon, then industry commissioner - allowed Brussels to dictate individual company's production quotas, impose protectionist trade measures, and endorse subsidies and price cartels.

This time, the Commission used a lighter touch. It offered market supervision through quarterly "recommendations" for forward production and delivery volumes, but it encouraged privatisation to take out excess capacity. The aim was to balance state aid for restructuring with monitoring of plant closures.

After a fashion, it worked. By spring this year, the Commission had notched up real and promised cuts totalling 11m tonnes. But in his search for the extra 6m tonnes, Mr Van Miert overstepped.

The first signs of trouble appeared at a meeting in Strasbourg early last month when Mr Van Miert delivered an ultimatum to European steel industry bosses: failure to find the extra cuts would bury the rescue plan and terminate

his role.

Two weeks later, the Belgian commissioner put forward to a full Commission meeting new proposals for approving Ecu 415m of Italian state aid in return for the closure of capacity in the Brescian. There was one snag: no actual company would close, only a portion of the plants.

Mr Van Miert pleaded for a flexible interpretation of rules on steel aid, noting that the amount of subsidies was modest compared to aid already authorised. But Sir Leon Brittan demolished his arguments, claiming the subsidies were legally dubious and undermined the EU position in negotiations with the US on a multilateral steel agreement.

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his role.

In retrospect, several lessons can be drawn from the affair. Mr Van Miert admits he should have put more pressure on the steel industry to deliver cuts in capacity before he offered concessions such as pre-financing for closures. "Van Miert is a socialist turned liberal," agrees one observer. "That does not make a good combination."

Second, many of the commissioners were caught unawares by Sir Leon's intervention, suggesting either a lack of homework or an unhealthy reliance on their own Cabinet staff who had backed the Van Miert plan overwhelmingly just two days before. Mr Bangemann's own involvement has been sporadic. He was in Estonia when the crucial Brescian vote took place in the Commission.

Third, Mr Van Miert appears to have become obsessed with hitting the 19m-tonne target. "He made it seem that the Commission was responsible for finding the cuts in capacity, rather than industry. That was a fatal mistake," says one official.

Fourth, the Commission may be underestimating the interest of steel companies themselves in finding market solutions to the crisis. A slowly recovering steel market coupled with new governments in France and Italy committed to privatisation may offer new possibilities, says one official.

These possibilities could include new transnational alliances, with companies choosing to eliminate specific capacity in return for reciprocal equity stakes and investment. Arbed, the Luxembourg steelmaker, has led the way in Europe in cross-national joint ventures. Some believe that British Steel may pursue a similar approach, possibly in France.

When the Commission revisits the steel crisis tomorrow, it seems likely that it will approve a repackaged version of the Van Miert plan. The onus in the new version will be on Berlusconi's new government in Italy to show that state aid to the Brescian plants does not violate EU rules, and the blame for failure will be shifted to the industry rather than the Commission.

So, the steel plan looks set for the greatest comeback since Lazarus. But it is far from clear whether it will meet Mr Van Miert's own demands for at least a "minimum amount of political and intellectual coherence". His vote will be worth watching.

Booked up for knights of Polish passion

Chrystia Freeland on Harlequin's eastern promise

Polish men used to take their gallant reputation seriously: it was a country where coal miners would kiss a lady's hand on introduction at the picket line. But since the collapse of communism, Polish women in search of a white knight turn increasingly to Polish translations of romance novels produced by the local subsidiary of Canadian-based Harlequin company.

Over the past two years, Polish women, like those in Hungary and the Czech Republic, have fallen for the western charms of Harlequin heroes as avidly as their male counterparts have taken to the western pornography once banned by communist censors. While the competition to satisfy eastern Europe's appetite for pornography is fierce, over the past three years Harlequin, which trades in the UK as Mills and Boon, has managed to establish the same market dominance east of the Elbe that it exerts in western Europe and North America.

More than 90 per cent of the 24m romance novels sold in Poland last year were Harlequins, and the company enjoys similar sales levels in Hungary and the Czech Republic.

This year, Harlequin is pedalling passion even further east, through new subsidiaries in Bulgaria and possibly Russia. Where the company is conducting a trial run.

Harlequin is the McDonald's of romance: its product is inexpensive, mass produced and offers the same, simple story-line in dozens of languages every month. In Poland, this approach has allowed Arlekin, Harlequin's fully owned local subsidiary, to become the nation's largest foreign publisher, with monthly sales approaching 2m and a gross profit of nearly \$2m last year, with a full-time staff of only 11.

Harlequin paperbacks, with their covers of couples locked in romantic embraces, are now a common sight in Polish bookstores. But to mark Harlequin's entry into Poland, Mrs Nina Kowalewska, the managing director of Arlekin, first had to promote a feminine version of the capitalist dream which has conquered eastern Europe: a romantic love match with an invariably well-heeled Prince Charming.

First, she blitzed the country with television advertisements in which a woman, sitting in a grey apartment on a grey sofa, finds herself in a bright, elegant, expensively furnished home, with a well-dressed man at her elbow. As a male voice croons "enter the garden of love", several Harlequin novels appear on the screen.

Poland's high culture is strapped for cash and many writers live by translating romances into Polish

Mrs Kowalewska followed up her visual assault with an even more direct effort to make the western woman's romantic idyll a part of post-communist Polish culture: in 1992 she introduced Valentine's Day into Poland. Harlequin held a Valentine's Day party for its main subscribers and assorted politicians, created a Valentine's Day package for television and offered romantic

holidays and a Nissan Micro car as Valentine's Day prizes to its readers in a lottery-style draw.

Mr Kowalewska, one of Poland's best known businesswomen, has also employed less glamorous marketing techniques. She insists on high production standards, printing Polish Harlequins in Germany because no Polish press can cope with such as high volume. Mrs Kowalewska stresses that "you will never find a spelling mistake or typographical error in our books".

High production quality is a necessary defence for Mrs Kowalewska, who must counter the soft but incessant grumbling of Polish intellectuals. They resent the replacement of the high-brow literary classics such as the epic poem *Pan Tadeusz* by 19th century writer Adam Mickiewicz, which once provided a refuge from the reality of communism with the popular culture of Harlequin novels.

Her final defence, taken up on the pages of a Polish political journal, is that while western feminists might criticise romance novels for perpetuating sexist stereotypes, in Poland, such writing is in the vanguard of the struggle for women's rights.

"Polish men are rough, crude and exploitative," Mrs Kowalewska says, adding with a polite smile, "in this way we can also help to subsidise high culture".

Despite the quiet scorn of Polish intellectuals and the mounting trepidation of Polish men, this appears to be a message which Polish women are willing to spend billions of zlotys a year to hear.

OBSERVER



What if we extend VAT to all food except beef?

Modise spoke warmly of Armscor's contribution to exports, job retention and the maintenance of local technology, but then refused to take questions. A less generous hack remarked that his words bore an uncanny resemblance to those of Armscor's first great promoter - former minister of defence, later president, P W Botha. *Plus ça change.*

At a briefing by state arms manufacturer Armscor - where Armscor declared its intention to double arms exports from their current annual figure of R886m - Modise could hardly have been more fulsome in his praise.

exporter, to find its top arms salesman?

Sir Colin Chandler was BAe's marketing director when he was poached to head the Ministry of Defence's Export Sales Organisation in 1988. Now another BAe type, Charles Masfield, 54, is being fingered to do the job. His dad, Sir Peter Masfield, used to be a big wheel in the British aviation industry, which helps in a business where names matter. Masfield junior is also an ex-chief test pilot for Hawker Siddeley, so at least he should know what he's talking about on the hardware side.

It's certainly taken long enough to find a boss for one of Britain's most successful export businesses. One reason may be that the MoD insists on having a Brit.

But if an Australian - Malcolm McIntosh - can be chief of defence procurement, surely an out-and-out foreigner could be Britain's chief arms sales rep?

It would certainly widen the field and reduce the suspicion that the job will be stitched up over a few brandies and cigars at the Athenaeum.

Swan song

■ What does the secretary of the Bank of England actually do?

Take Geoffrey Croughton, the current incumbent. Apart from keeping the minutes of the weekly meeting of the court of directors, Croughton has been slaving away

for months organising tomorrow's concert at the Barbican.

If anyone knows the score it is Croughton. Not only has he arranged the programme, but he will be on stage singing with the Philharmonic Chorus. Indeed, this will be his swan song. After eight years on the job, he retires at the end of the year and hands over to John Footman, the Bank's user-friendly PR chief.

Footman follows in a distinguished tradition. Kenneth Grahame found time to write *Wind in the Willows* and several other tomes during his 10 years in the post, and Montagu Norman, who ran the Bank for 24 years, is reported to have offered the job of company secretary to T E Lawrence (of Arabia).

Oddly enough, Lawrence seemed to prefer an even bigger desert.

Free love

■ Tom Spencer is standing as the Tory party candidate for the Surrey constituency in the European elections on June 9. For some reason Spencer chooses to sign his election leaflet not "yours", nor even "yours sincerely" but "love". My starting point is that Surrey is geographically and industrially at the heart of Europe," says Spencer's handout.

Clearly a man fuelled by wishful thinking and desperate optimism; an ideal candidate for the Tories.

Scrabbling in Toytown

■ Who will finally bag J W Spear, the UK owner of Scrabble? Will it be mighty Mattel, manufacturer of Barbie, aged 35? Or will Hasbro, handler of Snakes and Ladders, 33, finally win through? Hasbro was first, valuing Spear at almost £47

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Clinton says nations must keep strong alliances

Leaders praise unity as D-Day ceremonies end

By David Buchan
on Omaha Beach

Veterans and international leaders gathered yesterday on Omaha Beach, the most notorious of the five Normandy landing points because of heavy US casualties, for the closing ceremony of the D-Day commemorations.

Recalling the community of nations which banded together to fight Nazism 50 years ago, and that has since embraced democratic Germany, the wartime allies reviewed troops, marching bands, planes and ships from 13 countries that fought the Nazis.

The tale of the D-Day preparations was recounted in two ways - first in the homespun words of Mr Walter Ehlers, who won America's medal of honour and lost his brother on June 6 1944. Then President Mitterrand, himself for a time a prisoner of war in Germany, in polished rhetoric saluted all the veterans "come to rejoin their past, which is our future".

The French president also saluted the heroism of the Russian people, who pinned down 150 German divisions, the French resistance who helped pave the way for D-Day, and Hitler's oppo-

nents inside Germany "who remained true... to the German of their dreams, home of the highest culture".

Meanwhile, in a newspaper interview yesterday, Chancellor Helmut Kohl denied he had ever solicited an invitation to the D-Day ceremonies, and said: "I understand very well why the allies are commemorating this occasion, so significant for Europe and for their sacrifices."

Chancellor Kohl, in a meeting with Mr Felipe Gonzalez, the Spanish prime minister, later underlined forcefully Germany's continuing commitment to the process of European integration.

The message which all the leaders gathered in France sought to convey yesterday was that from the anti-Nazi struggle of 50 years ago came the post-war international co-operation that must be continued to combat present and future conflicts.

President Clinton told the US Rangers who had scaled the Pointe du Hoc cliff above Omaha, that there were "still efforts to be scaled" by the world's democracies who must maintain strong alliances. Mr Clinton went on to tell the Ranger veterans that "if we should falter, we need only

remember you at this spot 50 years ago, and you again at this spot today".

Britain commemorated its dead at the Bayeux cemetery in morning drizzle and then its veterans at Arromanches in afternoon sun. The ceremony was attended by President Mitterrand, Australian prime minister Paul Keating and other leaders, including the Grand Duke of Luxembourg who served in the Irish Guards to free his country from the Third Reich.

Later, Queen Elizabeth and Prince Philip walked among the graves of the 3,363 British dead and the memorial to 1,806 unknown dead of the Commonwealth. At Arromanches, the Queen said the presence of Mrs Simone Veil, a senior French minister who was a young Jewish girl who was in Auschwitz, "represents perfectly why we are here

today".

Mr Clinton, who has been criticised for not serving in the Vietnam war, paid eloquent tributes to fallen US soldiers and survivors. But at Utah Beach, where US forces had also landed, veterans cheered when they were told tardiness on the part of President Mitterrand had also delayed Mr Clinton.

Philip Morris acts against Australian advertising ban

By Nikki Tait in Sydney

Philip Morris, the US cigarettes and brewing giant, yesterday launched a High Court action in Australia, seeking to overturn the country's ban on cigarette advertising on the grounds that it denies "commercial freedom of speech".

This is thought to be one of the first attempts by a US cigarette manufacturer to litigate against "anti-smoking" laws outside the US, and comes as the industry faces increasing pressure from regulators at home and in the international market.

The company said it filed a statement of claim because the restrictions imposed by the 1992 Commonwealth Tobacco Advertising Prohibition Act were "so wide-ranging that they did it the right to take part in debate on political, public and social

issues and deny it the normal commercial freedom of speech.

"Important issues of freedom of speech are at stake because the restrictions deny us the right to communicate on political, public and commercial issues," said Mr David Davies, vice-president at Philip Morris.

The 1992 act made tobacco advertising illegal in Australia from the middle of last year. It will also phase out cigarette sponsorship of sporting events by the mid-1990s unless exemptions are obtained. Existing sponsorship contracts will be honoured.

When the legislation was introduced, federal health officials claimed that about 18,000 Australians died each year from tobacco-related diseases and the drain on health services amounted to about A\$6.5bn (US\$4.85bn) a year. Some 28 per cent of Australians are

estimated to be smokers.

Philip Morris claimed yesterday the trigger-point for its lawsuit came last month, when it tried to recall some promotional cigarette lighters, which were thought to be faulty. It said some Australian media groups claimed initially they could not publish the recall advertisement for fear of breaching the federal law. After a brief delay, modified advertisements were accepted.

Philip Morris employs about 4,000 people in Australia and says it pays more than A\$1bn in taxes and licence fees to state and federal governments.

"We believe it is unacceptable for such a significant organisation, responsible to so many shareholders, employees, suppliers and customers, to be denied the right... to engage in normal commercial communication," the company said yesterday.

OECD lifts growth forecasts

Continued from Page 1

cent in the first half of this year. The OECD has revised its expectations of short-term interest rate developments. It expects US 3-month rates will rise to 5.8 per cent by late 1995, about 0.5 points higher than projected in December.

German short-term rates are expected to fall over the next 18

months, but less sharply than previously expected. The OECD expects German 3-month rates will be 4.3 per cent by the end of next year, against its earlier forecast of 3.8 per cent.

Like all projections, the latest OECD figures are subject to uncertainty, including possible negative effects from the recent sharp rise in long-term bond rates.

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polite for us to give our supplier a chance to clarify the situation," the supermarket group said.

Mr Seth dismissed Procter & Gamble's research findings about damage to clothes as "irrelevant".

He said: "If you pick the right combination of dye, stains, material and basic colour, you can

get results which will show severe damage. If I want to, I can do the same with competing products."

The largest Dutch consumer protection group called on Unilever yesterday to make a clear distinction between the old and new Omo Power when it launches the modified version in the Netherlands later this month.

THE LEX COLUMN

BAA reaches for the sky

BAA has the defensive qualities of a utility but the growth prospects of the civil aviation industry. So it is hardly surprising that chief executive Sir John Egan is piling investment into the business. Planned capital expenditure in airports of £1.4bn over the next three years is more than double investment over the past three years. Part of this is to accommodate future growth in passenger volumes. But the stepped-up spending is also designed to expand airport retailing, improve the quality of terminals and build more office space. A further £200m is earmarked for investment outside airports, mostly building factory outlets.

Given that BAA's strategy of controlling costs and boosting retailing, revenue is delivering handsome returns, investors will probably be pleased to have more of the same.

Sales per passenger at the group's first redesigned shopping mall, Heathrow's Terminal Four, have increased 30 per cent. Meanwhile, BAA's construction costs have dropped by a third over the past three years and the company now boasts world standard building costs.

There are two main worries. First, that BAA's airport retailing investment could hit diminishing returns as passengers presumably have finite budgets. Second, that the group's move into factory outlets could prove misguided, given its poor record of diversification outside airports. Still, Sir John is determined to proceed on a suck-it-and-see basis and would be prepared to pull projects if rates of return failed to meet expectations. The expansion programme seems to be in safe hands.

New issues

The paralysis which started to grip the new issues market in May is spreading. British Printing Company, the latest UK company to postpone its flotation, is neither an unfashionable property developer nor a cable television operator. Despite its colourful past within the Maxwell empire, BPC is the kind of solid industrial company institutions would normally be happy to own. Despite floatations totalling £7bn this year - more than in the whole of 1993 - there is no shortage of institutional funds even if patience is wearing thin.

While equity and bond markets are choppy, though, many institutions would rather accumulate cash than commit fresh funds. Pension funds were certainly building cash balances during the first quarter. Long gilt

yields of almost 9 per cent tempted some fund managers into bonds last week. Where money is flowing into equities, larger stocks are more likely to benefit. On a yield premium of 20 per cent to the Mid 250 index, the FT-SE 100 looks most attractive to investors in search of value.

A medium-sized company like BPC was therefore swimming against the tide. The flotation might have still succeeded, but only by pricing the shares more cheaply than the company and its existing shareholders could accept. Other hopefuls may be prepared to bend a little more. Greater realism in pricing new issues was always overdue. The sight of big industrial groups floating subsidiaries rather than making trade sales - ECC and Hanson are cases in point - was a hint that equity market valuations had become over-blown.

UK economy

It is tempting to conclude from the latest statistics on consumer credit and the housing market that April's tax increases are starting to bite. Perhaps, though, it would be more relevant to ask how far the economy would now be set to overheat if there were no tax increases to dampen consumer demand. Consumer credit may have fallen compared with March but April's total of £413m was still higher than January and February and more than double that of April last year.

The slippage in housing market activity is more unsettling, but it seems unrelated to the tax increases: more likely it reflects the bunching of transactions earlier in the year while the cheapest fixed-rate mortgages were

still available. It will take a month or two to tell how serious is the housing market setback. So far nothing has happened to deter the upward drift of City estimates for this year's economic growth to 3 per cent or even higher. Expansion at that pace cannot be entirely consumer-led. Happily there are glimmers of increased investment demand which should help pick up any slack, while the nascent recovery in Europe should bolster exports.

If that makes the recovery more sustainable, the risk remains that tax increases combined with fears of higher interest rates will eventually sap confidence. Base rate concerns, though, are still only a matter of expectations. If fears of higher rates did upset the recovery, the authorities would be spared the political embarrassment of having to implement the steep rate rises now predicted by the money market.

Sprint/EDS

A disagreement over the relative values of Sprint and EDS caused the breakdown in their merger talks. But the logic of putting a telecom operator together with a data processing company is still plausible, if a little fuzzy. Since both companies are important pieces on the multimedia chess board, a further phase in the complex game of telecoms alliances is in prospect.

Sprint will be the centrepiece of attempts to put together a third force in the US telecoms market to compete with AT&T and BT. It will also be a player in whatever group emerges to rival the global alliances led by AT&T and BT/MCI. With indications that France Telecom and Deutsche Telekom are going cold on linking up with AT&T, the likelihood that Europe's two largest carriers will join forces with Sprint has increased. Some sort of alliance with NTT is also possible, though the Japanese carrier is still being wooed by BT and in any case is limited by regulations in what it can do in overseas markets.

There is little point in combining EDS with another company which does not own a US telecom network. It may therefore make sense for it to gain its independence from General Motors and use whichever networks offer the best deal. Alternatively BT, which came close to buying a stake in EDS two years ago, may renew its interest. Shareholders in the UK group, though, are likely to be worried about the dilution implicit in such a move.

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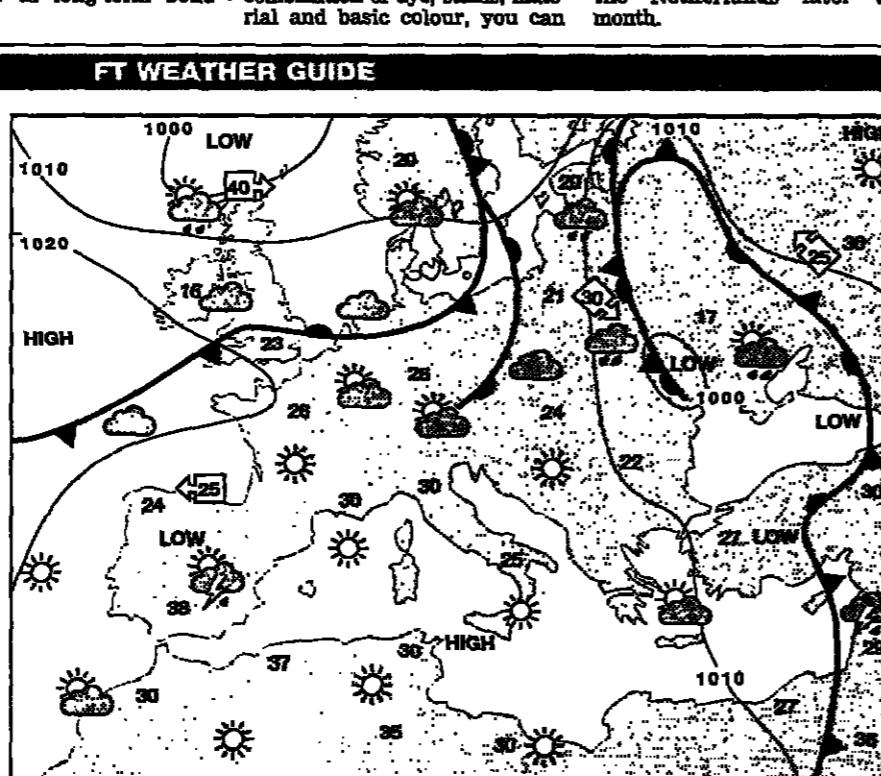
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INTERNATIONAL COMPANIES AND FINANCE

France warned on role in Meridien hotels sale

By Michael Skapinker, Leisure Industries Correspondent

Forte of the UK yesterday received a boost in its battle to win control of the Meridien hotel chain, as the European Commission appeared to warn the French government against political interference in the sale.

Forte is pitted against Accor, the French hotel group, for control of Meridien, which is 57 per cent owned by Air France. Forte's bid, supported by the Meridien management, values the chain at FF1.8bn (\$317m). Accor has submitted a bid which values it at FF1.5bn, with the cash to be provided by Prince al-Waleed of Saudi Arabia. The prince last week

also announced he would buy up to 24 per cent of the Euro Disney theme park.

Air France has referred the rival bids to the privatisation commission, an independent body which advises the French government on privatisation issues. The referral was seen on both sides of the English Channel as evidence of strong pressure on Air France to sell Meridien to a French buyer.

The European Commission's warning appears in a letter to the French government carried in the Official Journal of the European Communities.

The letter contains the Commission's comments on the French government's plan to provide a FF20bn capital injection to Air France to become economically viable.

Finnish bank reduces losses

By Christopher Brown-Humes in Helsinki

Losses at Kansallis-Osake-Pankki, Finland's leading commercial bank, narrowed sharply to FM275m (\$50m) from FM628m in the first four months as it benefited from reduced credit losses, new business and lower interest rates.

However, it said it expected a full-year deficit of up to FM1bn before returning to the black next year. Last year, the bank made a FM2.66bn loss, in its third consecutive year in the red.

The recent improvement was attributed mainly to the drop in credit losses, from FM33m to FM37m. This would have been much higher had the bank not anticipated continuing problems by establishing a FM900m general provision at the end of last year. It used all but FM300m of the facility in the first four months.

Non-performing assets also showed a downward trend, falling to FM65m at the end of April from FM75m at the start of the year.

Income from financial operations rose to FM768m from FM666m. Deposit and

lending activity increased, following the bank's acquisition of Savings Banks of Finland businesses, while lower interest rates cut the costs of funding non-performing loans.

Non-interest income fell 18 per cent to FM75m. Last year's figure was helped by sales of forest land and property. Expenses rose 1 per cent to FM1.4bn.

Mr Pertti Vuotila, chief executive, said credit losses would weigh heavily on the Finnish banking sector in 1994 and 1995, despite an improving economy and failing sector bankruptcies.

BPC board postpones share flotation

By Maggie Urry and Paul Taylor in London

The London stock market retreat claimed another corporate victim yesterday when the planned flotation of British Printing Company, the UK's largest commercial printer, was postponed.

BPC's board said it had

"decided to delay its approach to the market until a time when the market environment is considered to be more predictable". It was now unlikely to seek a listing before the end of the year.

But there was no sign yesterday of other significant forthcoming issues being pulled. New issue experts believe there is still good demand for shares in well-managed companies, if correctly priced.

Advisors to Eurodollar, Pillar Properties, Chesterford International, 3I and Exco, for instance, said they had no plans to delay issues due before the summer break. However, they were watching the market carefully and had time to postpone if necessary.

BPC announced its plans for a summer stock market debut - expected to value the group at around £250m (\$375m) - early last month. The funds raised would have been used to repay debt associated with the management buy-out of the business from the late Mr Robert Maxwell's business empire in January 1989, thereby eliminating about £25m a year in interest costs.

The group's high level of debt meant that a relatively small cut in the prospective issue price had a disproportionately large effect on the value of the equity. It is thought Merchant Management, which led a second refinancing in mid 1992, had objected to cutting the issue price.

BPC's postponement is the latest sign of trouble in the new issue market. One merchant banker said there could be other highly leveraged companies which must now be looking at refinancing debt rather than relying on a flotation to repay lenders.

Grant Thornton, next in size, reported fee income down 6 per cent to £107m. BDO Binder Hamlyn, most parts of which are expected shortly to merge with Andersen, reported fees down 1.8 per cent to £106.5m.

Lex, Page 18

Philips leaves dark days behind

The semiconductor side is investing again, writes Ronald van de Krol

After years of cost-cutting, the semiconductor division of Philips, the Dutch electronics group, is spending again as it celebrates a return to profitability.

Philips is even considering a new chip factory, which could cost up to \$1bn. If built, it would represent the largest single investment by the company since its financial crisis began in 1990.

A decision on the plant is expected later this year - but the fact that such a large investment is being contemplated underscores the change in fortunes at Europe's biggest semiconductor maker.

Even without the plant,

Philips is aiming to double investments in fixed assets this year, to around F1.600m (\$225m) from F1.300m in 1993, according to Mr Doug Dunn, who is about to mark his first anniversary as head of Philips' semiconductor business. He was formerly managing director of GEC Plessey Semiconductors.

Expenditure on research and development is set to remain at 15 per cent of sales, although this will rise in absolute terms because of an expected sharp increase in the division's turnover during the next few years.

Besides stepping up investments, Mr Dunn says he wants to pursue swift sales growth, putting an end to the bad times of the early 1990s when the division concentrated on retrenchment.

Recalling his arrival at Philips' semiconductor division, Mr Dunn notes: "The organisation had been focused - quite properly, as you have to be for survival - not on growth, but on cost-cutting, cost-cutting and

more cost-cutting."

Philips' return to heavier investment in semiconductors is a milestone for the division and a welcome turnaround from 1990, when the group abandoned pilot production of one-megabit static random access memory (SRAM) chips. It did this to stanch the drain of cash into a project that had generated prestige but produced heavy losses.

Semiconductors returned to profitability in 1992. The rise became more pronounced in 1993 and, in the 1994 first quarter, continued to strengthen. Precise figures for semiconductors, which are part of the components and semiconductors product sector, are not published.

However, the components and semiconductors sector as a whole was the group's biggest earner in the first quarter, contributing F1.37m of total group operating profit of F1.63m. It edged out lighting as the company's traditional "cash cow".

Philips does not dispute Dataquest's estimate that 1993 sales of semiconductors amounted to around F1.4bn.

On profitability, Mr Dunn will say only that margins are clearly in double digits.

"When it comes down to income from operations, or profit, we are the best in Europe, and very close to the best in the world," he says.

The business generates enough cash to pay for investments, including the possible chip factory. However, Mr Dunn stresses that a completely new plant is not the only option, and he has yet to present any one plan to the group's board.

One alternative would be to increase capacity at Philips'



Doug Dunn: 'We're feeling very pleased with ourselves'

plant in the Dutch town of Nijmegen, where there is still some vacant space.

This, however, would not produce as much extra capacity as a new plant. Mr Dunn said Philips might also consider building the plant with another semiconductor makers, thereby spreading the cost. The plant could be built anywhere in the world, he added.

Philips currently has chip factories in the Netherlands, Germany, Britain, France and the US, as well as assembly operations in several locations in Asia.

Another priority, according to Mr Dunn, is to improve Philips' identification of marketing opportunities and to come up with solutions demanded by the marketplace.

"We're feeling very pleased with ourselves, but we can do even better," he says.

CGIP forecasts profits growth for full year

By Alice Rawsthorn in Paris

eral meeting that he expected to see "a significant boost to earnings" this year.

CGIP, which earlier this year raised FF954m (\$175m) from a convertible bond issue, recently reported flat profits for 1993, at FF542m against FF542m in 1992.

However, the board yesterday proposed an increase in the dividend, to FF34 for 1993

compared with FF32 for the previous year, as a reflection of its confidence in the future.

Mr Seillière said this year's increase in profits would be partly due to "an improved contribution" from CGIP's interests, which include a 32 per cent stake in the Carnaud-MetalBox packaging concern and 20 per cent of Cap Sogefi

Gemini, the computer services group.

CGIP should also benefit

from the capital gains on disposals, including the recent

sale of control of Cedest to Holderbank, the Swiss cement group, for FF3.5bn. The group

was then raising new capital to help pay for last year's deal whereby it lifted its stake in Carnaud-MetalBox.

Second Notice of General Meeting

Meeting of Guaranteed Exchangeable Bonds due 2003 Square D

The General Meeting of the Masses of the holders of the 2 per cent Guaranteed Exchangeable Bonds due 2003 of Square D Company, invited by a first notice to attend the General Meeting on 31st May 1994, having been unable to deliberate, the quorum being not present, the holders of such bonds are invited to attend the General Meeting to be held on 16th June 1994 at 9.00 a.m. at the office of the Compagnie Financière de CIC et de l'Union Européenne, 4, rue Gallon, Paris 2^e to consider the following agenda:

• The report of the Board of Directors.

• The approval, subject to the decision of the General Meeting of the shareholders of Schneider SA, of the authorization given to the Board of Directors of Schneider SA to:

- issue shares of Schneider SA with or without warrants for a maximum nominal amount of FF 3 billion,

- issue bonds, other tradeable securities or subordinated securities which are convertible into, exchangeable for or reimbursable with, shares, for a maximum nominal amount of FF 5 billion,

- issue warrants representing subscription rights to an aggregate number of shares which can total no more than a nominal amount of FF 2 billion.

In connection with any such issuance of Securities and shares, Schneider's shareholders should renounce any preferential subscription rights.

• The approval, subject to the decision of the General Meeting of the shareholders of Schneider SA, of the authorization given to the Board of Directors to approve the issuance of shares in connection with the issuance, by companies in which Schneider SA holds, directly or indirectly, a majority of the outstanding share capital, of warrants, bonds, other tradeable securities or subordinated securities which are convertible into, exchangeable for or reimbursable with, shares. In connection with any such issuance of shares, Schneider's shareholders should renounce any preferential subscription rights.

• Any other business.

In order to attend or be represented at the meeting, holders of bonds must deposit, at least five clear days prior to the meeting at the head office, the certificate of deposit, issued by the bank, financial institution or stockbroker with whom the bonds are lodged.

THE BOARD OF DIRECTORS

GROUPE SCHNEIDER

THE KOREA-EUROPE FUND LIMITED

International Depositary Receipts issued by

Morgan Guaranty Trust Company of New York evidencing Beneficial Certificates representing 500 Units

Notes is hereby given to the shareholders that the Korea-Europe Fund Limited declared an interim dividend of US\$0.01 per share. The record date for the dividend is 1st June 1994.

The dividend has suffered 20% UK tax.

As of 15 June 1994 payment of coupon number 7 of the International Depositary Receipts will be made in US Dollars at the rate of US\$5.00 per IDR. Payment will be made at one of the following offices of Morgan Guaranty Trust Company of New York:

Brussels, 35, Avenue des Arts, 1040 Brussels
London, 60, Victoria Embankment, EC4A 1EW
Frankfurt, 4446, Mainzer Landstrasse, 30
Zurich, 38, Stockerstrasse

Depository: Morgan Guaranty Trust Company of New York, 35, Avenue des Arts, 1040 Brussels

Instituto de Crédito Official

US\$ 450,000,000

Statutorily Guaranteed Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from June 03, 1994 to December 05, 1994 the Notes will carry an Interest Rate of 5.05% per annum.

The Coupon Amount payable on the relevant Interest Payment Date, December 05, 1994 will be US\$ 259.51 per US\$ 10,000 principal amount of Note and US\$ 2,595.14 per US\$ 100,000 principal amount of Note.

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FINANCIAL TIMES

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FT Surveys

Should've talked to CNT.

Argentina to sell off remaining 20% of YPF

By John Barham and Stephen Fisher in Buenos Aires



Domingo Cavallo's decision in two or three months

Argentina yesterday came out in favour of selling the government's remaining 20 per cent stake in YPF, the privatised oil company.

The deal is expected to cost about \$1.8bn at current prices.

Mr Domingo Cavallo, the economy minister, said that the government was in favour of the sale with one condition. The sale of the stake is being heavily promoted by members of the governing Peronist party in Congress.

Mr Cavallo said: "It depends on the use the resources would be put to. If used for development of the interior, we would view it positively. If there was a one-off distribution of the resources as 'assistance, it would be an error.'

YPF, Argentina's biggest company, was privatised in June last year in a \$3.04bn local and international share offering. The government sold 45 per cent of YPF to investors, held on to a 20 per cent stake and sold the remaining share to workers, provincial governments and pensioners.

Domtar to spin off gypsum and wallboard businesses

By Robert Gagnon in Montreal

Domtar, the big Canadian construction materials, pulp and paper and packaging group, plans to spin off its gypsum, wallboard and decorative panels business with an initial public offer in the US and possibly Canada that could raise more than C\$400m (\$325m).

The assets, valued at about C\$2.5bn, have already been put into a new 100 per cent-owned subsidiary, called America North Industries (ANI), including 18 wallboard plants plus gypsum mining operations, located mostly across the US and also Canada.

Domtar ranks as North America's third biggest wallboard producer. The business is recovering sharply with a rising US home building market.

ANI also includes Domtar's highly-profitable decorative panels business.

The initial public offer will be made through Kidder Peabody and Salomon Bros as lead underwriters. Concurrently ANI will raise another US\$125m via a public note issue.

Domtar could retain up to 40 per cent of ANI. It has already spun off its newspaper unit in a C\$285m initial public offer. It wants to concentrate now on its communications and business papers unit, specialty paper and packaging.

It is trying to negotiate management buy-outs of two pulp mills in eastern Canada.

Cox climbs to third in US cable-TV league

Louise Kehoe examines the Atlanta-based company's \$2.3bn deal with the media group Times Mirror

Times Mirror, the US media group, reached a definitive agreement over the weekend to sell its cable television operations to Cox Enterprises, a privately-held Atlanta-based cable television and publishing group.

The complex \$2.3bn deal involves the exchange of stock and debt. It will make Cox Cable, the Cox Enterprises cable unit, the third largest US cable-TV company, after Telecommunications and Time Warner, with around 3.1m subscribers.

Currently, Cox Cable is the sixth largest US cable-TV company with 1.8m subscribers. The acquisition will provide Cox with the economies of scale needed to compete aggressively in the emerging market for broadband interactive multimedia communications services to

the home, said Mr James Robbins, president of Cox Cable.

Mr Robbins will also become chief executive of the merged operations. Through the merger, Cox will acquire cable TV systems in some of the most populous areas of southern California and Arizona.

The Cox-Times Mirror deal signals renewed investment interest in the cable-TV sector, which had cooled following the collapse of two planned telephone company-cable TV deals involving Bell Atlantic and AT&T, and Southwestern Bell and Cox, earlier this year.

These agreements were scuttled by concerns about regulatory moves to cut cable-TV service prices by the Federal Communications Commission.

"While we are not at all happy about the current state

of regulation, we believe strongly in the long-term cost effectiveness of the broadband platform," said Mr Robbins.

"That's what this deal is all about."

The Cox-Times Mirror deal may encourage further consolidation in the cable-TV industry, analysts said. Several smaller cable-TV companies are said to be looking for buyers.

The cable-TV industry is being transformed by advances in technology that herald the emergence of "interactive"

television services such as "video-on-demand", TV shopping and news and information services.

However, only the largest cable-TV companies can afford to upgrade their networks to provide such services. They also face potential competition from telephone companies which are also planning to transform interactive TV services over their networks.

For Times Mirror the deal reflects a decision, reached late last year, to refocus on its publishing operations. The

group owns the Los Angeles Times, Newsday, and several other US newspapers and magazines.

Analysts said that Times Mirror recognised that it would have to make substantial investments to upgrade its cable-TV operations to remain competitive and chose instead to focus on its "core competencies" in publishing.

"With this merger, we have committed our future to the content side of the information highway and have gained substantial resources to pursue our growth strategy," said Mr Robert Erburt, chairman, president and chief executive of Times Mirror.

Times Mirror aims to become a leading supplier of information and programming for digital media services, he said. The group plans to grow "through the application of new technologies".

Foster's reorganises its brewing interests

By Nikki Tait in Sydney

Foster's Brewing, the Australian beer manufacturer which also owns Courage in the UK, yesterday announced a reorganisation of its brewing interests into four divisions based on geographical boundaries, and a reshuffle of top executive responsibilities.

The four divisions will be Australasia (including the Carlton and United Breweries business), North America (Molson Breweries), the UK/Europe (Courage), and a

newly-created Asia division.

Mr Pat Stone, current CUB managing director, is quitting Foster's "to pursue private interests". Mr Ted Kunkel, Foster's chief executive, will take responsibility for this division.

Mr Nuno D'Aquino, former director of operations and CUB and international, becomes chief operating officer of this division.

Head of the new Asian arm will be Mr Peter Williamson, previously director of sales and distribution at CUB. The Molson and Courage operations are largely unchanged.

Molson unit in SA deal

Diversey, the special chemicals arm of Canada's Molson brewing group, has bought the cleaning chemicals division of Chemrite in South Africa, writes Robert Gibbons in Montreal.

Chemrite is an operator with a one-third interest. A two-thirds interest is held by state-owned Kyrgyzstan. Start-up is due in Rome.

Kyrgyzstan

has estimated

reserves of 16.6m oz of gold, of which 6.8m oz can be mined by open-pit methods.

The bank is 14 per cent

owned by the Treasury and the remainder is held by a foundation controlled by the Sicilian regional government. The losses, which compare with a break-even in 1992, are in line with estimates made by a Bank of Italy inspection last year.

The latter led to the resignation

of several senior execu-

tives and an investigation by Palermo magistrates.

Finalisation of the 1993

accounts should pave the way

for a L848m capital increase

from L816m.

The deal gives Diversey a

third foothold for expansion

on the African continent. It

already operates in Kenya and

Egypt.

"South Africa is the founda-

tion for our expansion across

the entire southern cone of

Africa," said Mr David Hull,

Molson's senior vice-president

for international operations.

He would not reveal the

price but said local manage-

ment would retain a minority

stake in the business.

The Chemrite division has

been making chemicals under

licence from Diversey since

1981. Diversey operates in 45

countries with annual sales of

well over \$1bn.

This announcement appears as a matter of record only

The Warburg World of Mining

MINERALS S.G. Warburg acted as financial advisor for the placement of 25.25 million shares of the common stock of Minerales Nacionales de Chile S.A. December 1993	MINORCO S.G. Warburg acted as financial advisor to Minorco, a subsidiary of holding of Johnson Matthey and sold 51% interest to Charter Corporation January 1993	ARCO S.G. Warburg acted as financial advisor for the placement of shares and warrants of Arco International Inc. December 1993	Southern Peru S.G. Warburg acted as financial advisor to the placement of shares and warrants of Southern Peru December 1993
GENERAL Societe Generale de Belgique sold part of its holding in Union Miniere November 1993	GENERAL Societe Generale de Belgique sold part of its holding in Union Miniere November 1993	AMOCO S.G. Warburg acted as financial advisor to Amoco November 1993	AMOCO S.G. Warburg acted as financial advisor to Amoco November 1993
PLACER DOME INC. Placer Dome sold 1.12 million shares to Prime Resources December 1993	PLACER DOME INC. Placer Dome sold 1.12 million shares to Prime Resources December 1993	ASARCO S.G. Warburg and Porter Warburg acted as financial advisor to Asarco November 1993	ASARCO S.G. Warburg and Porter Warburg acted as financial advisor to Asarco November 1993
PHILIPS DODGE arranged the financing for La Candelaria June 1993	PHILIPS DODGE arranged the financing for La Candelaria June 1993	ASARCO S.G. Warburg and Porter Warburg acted as financial advisor to Asarco November 1993	ASARCO S.G. Warburg and Porter Warburg acted as financial advisor to Asarco November 1993
CRA CRA sold 309 million shares of Pemexico May 1994	CRA CRA sold 309 million shares of Pemexico May 1994	CRA CRA sold 309 million shares of Pemexico May 1994	CRA CRA sold 309 million shares of Pemexico May 1994

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INTERNATIONAL COMPANIES AND FINANCE

Swire chief gives pledge on ownership of Cathay

By Simon Holberton
In Hong Kong

John Swire & Sons, the owners of Cathay Pacific, the Hong Kong-based airline, has reassured senior airline management and staff that they have no intention of relinquishing control of the company.

In an unusual move Mr Peter Sutch, chairman of Cathay, has circulated a letter from Swire's chairman, Sir Adrian Swire, instructing him to "kill this fantasy". Mr Sutch said he hoped the letter would put this "dangerous notion to rest".

There have been persistent doubts among some aviation analysts about the willingness of China to abide by agreements and allow Cathay to remain controlled by non-Chinese interests.

Cathay signed the 1984 Sino-British Joint Declaration and China's 1991 Basic Law for Hong Kong provide a secure future for the airline and its owners after China resumes sovereignty in 1997.

But the future ownership of Cathay has resurfaced recently as a concern of airline's pilots, currently engaged in pay nego-



Sir Adrian Swire: said sell-off 'has never been considered'

future of all those associated with the airline, both employees and shareholders.

"It would be a tragedy if all the hard work that has been put in over the past 10 years to secure the post-1997 future of Cathay were undermined by irresponsible comment of this kind being reported in the press."

Sir Adrian said that Swire had given assurances to the authorities in Beijing that "we were long-termers in China and Hong Kong". Swire could not possibly be so unwise as to do that if its intentions were the opposite.

After the 1984 Sino-British agreement Swire realised it had to give up some control over Cathay.

The first move was the listing of the airline on the Hong Kong stock exchange in 1986. It then encouraged mainland Chinese ownership of the airline - mainland interests now control 22.5 per cent of the company, with Swire Pacific owning 51.8 per cent.

Swire said yesterday that "everyone is very comfortable" with the current shareholding structure.

iations. The pilots have alleged that Cathay management's pressure on airline costs is a prelude to a sell-off.

"This is something entirely without foundation," Sir Adrian wrote in his letter to Mr Sutch on May 26. "It has never been considered by Swire and it is an allegation which if it ever became accepted wisdom could do immense harm to the credibility of Cathay Pacific and to the

Higher margins help Email to A\$87m for year

By Nikki Tait in Sydney

Email, the Australian white-goods and building-products manufacturer, yesterday announced a 53.3 per cent increase in after-tax profits for the year to end-March, to A\$87.8m (US\$86.9m). The rise was achieved on operating revenues of A\$1.8bn, up from A\$1.7bn a year earlier.

The figures included a nine-month contribution from National Consolidated, the building-products and formed-metal business, which added around A\$13.7m to after-tax profits. However, earnings per share still rose significantly, to 34.1 cents from 21.7 cents on a fully-diluted basis.

Email said that margins rose by one-fifth, due to productivity gains, cost reductions and some volume gains. Export sales also rose significantly.

Thailand's Imperial Hotels sold for \$132m

By William Barnes in Bangkok

Thailand's Imperial Hotels Group has been sold to Mr Charoen Sirivatwanapakdi, one of the country's richest men, in a deal which values the company at \$132m.

The transaction is thought to rank among the largest in Thailand.

Imperial Hotels ran into financial difficulties after it opened the 1,400-room Imperial Queen's Park Hotel - Bangkok's biggest - two years ago at a time when the number of foreign tourists arriving was in decline following the military's suppression of pro-democracy demonstrations.

Mr Akorn Hoontakul sold his family's 70 per cent stake in eight hotels for Bt33 a share. This shows a premium of some 10 per cent to 12 per cent over

its net asset value, which includes debts of at least Bt2.5bn (\$138m) but also a land bank and lucrative smaller city hotels.

Mr Charoen controls the privately-owned Thai whisky maker Sura Thip, which last year opened a joint beer-making venture with Carlsberg, the Danish brewer.

He also has banking and insurance interests.

International Broadcasting Corp, the Thai cable television operator, confirmed that it is in talks with Mr Rupert Murdoch's Star TV, AP-DJ reports from Bangkok.

An IBC spokeswoman said that the operator was planning to double its number of channels to 10, and that it was talking with Star TV about obtaining news and entertainment to fill its programming needs.

Overseas units behind sharp rise at Citic

By Tony Walker
in Beijing

China International Trust and Investment Corporation (Citic), the Chinese investment conglomerate, sharply increased profits last year to Yn3.35bn (US\$386.5m), compared with Yn360m in 1992.

Citic, which is rapidly developing its domestic and international business, attributed the improved performance to a bigger contribution from overseas subsidiaries and stronger domestic management.

The company, established in 1979 as a channel for foreign investment in China, continued in 1993 to increase international borrowings, raising \$440m in the international debt markets.

This takes to \$2bn the amount raised abroad in 18 bond issues. Among Citic's 1993 capital raisings was a \$250m 10-year bond in the US.

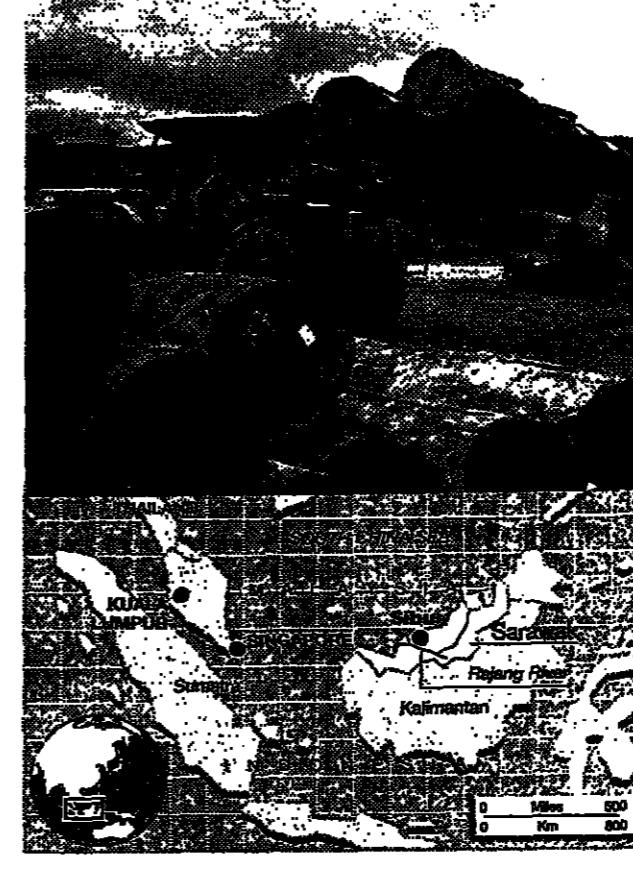
Citic's assets at the end of last year stood at Yn8.2bn against current and long-term liabilities of Yn7.35bn. Citic managers say they are committed to reducing indebtedness, but acknowledge this will not be easy in the present market.

The Rimbunan Hijau group, based in Sibu, is among the world's biggest tropical timber companies. It is run by the family of Mr Tiong Hiew King, who is regarded as the king of Sarawak's timber tycoons.

Various members of the Tiong family are said to control timber concessions in Sarawak

Log-jam along the Rajang river

Many Malaysian timber groups plan to float, writes Kieran Cooke



The Rajang river, Malaysia's longest waterway, is a mile wide at Sibu, a small town not far from the coast of Sarawak.

Oil tugs chase by, pulling log booms to freighters waiting out at sea. Saw mills and plywood factories dot the river's banks.

Sibu is the unimpressive-looking headquarters for some of the most cash-rich companies in Malaysia - those involved in the timber business. Traditionally, these companies have been privately owned, tightly knit and secretive enterprises run by Chinese Malaysian families. But times are slowly changing.

Sarawak accounts for about 80 per cent of the world's unprocessed tropical timber exports. Pressure by environmentalists and others has resulted in the state making big cuts in logging, so companies that have grown fat on the timber industry are looking for other investment opportunities. Many are planning to put themselves on the stock market.

The Rimbunan Hijau group, based in Sibu, is among the world's biggest tropical timber companies. It is run by the family of Mr Tiong Hiew King, who is regarded as the king of Sarawak's timber tycoons.

Various members of the Tiong family are said to control timber concessions in Sarawak amounting to about 800,000 hectares, an area about 10 times the size of Singapore.

Rimbunan Hijau's overseas timber operations are even bigger. Together with several other Malaysian companies, the group has moved much of its logging operations to the tropical forest of Papua New Guinea, where it is said to have concession areas of nearly 2m hectares. Other log-hungry Malaysian companies have been opening up operations in the Solomon Islands.

The wealth accumulated from the tropical timber industry is immense. Due mainly to reduced logging activities worldwide, prices of most tropical hardwoods have doubled - in some cases tripled - over the past 12 months.

Citic plans to invest some Yn4bn in Daxie's infrastructure and is seeking a further Yn260m from foreign investors.

market listed Berjaya Textiles, part of the Berjaya group, one of Malaysia's most aggressive conglomerates.

Earlier share traders have been licking their lips at the prospect of one of the country's biggest privately-held enterprises moving on to the stock market. Last year, the Kuala Lumpur market went up by 96 per cent. Some of the most actively traded stocks were timber-associated and much smaller than the Tiong empire.

Mr Philip Ting, head of Sarawak Securities, the state's only broking house, says that timber tycoons like Mr Tiong feel that they will gain respectability by going public.

"The patriarchs who usually run these companies are also under pressure from a younger, foreign-trained generation who want to introduce more modern

methods and use the company's resources to diversify - not merely to cut down trees and sell them," says Mr Ting.

This process has already begun in the case of the Tiongs. The family is Malaysia's biggest plywood producer. It also owns a publishing business which includes the country's largest selling Chinese newspaper.

The Tiongs have extensive property and plantation holdings and a 30 per cent stake in a medium-sized bank.

Among the family's overseas assets are a large cattle ranch in Australia, a timber mill in China and property in Singapore. A brother of Mr Tiong living in Singapore is said to use the family holdings to trade in global equities.

Analysts say that families like the Tiongs feel that going public will provide some insulation from political

"Timber companies have been getting away with too much," said one finance ministry official.

"Log export values have been understated or logs have been sold at a loss to other family members in Hong Kong before being re-exported to Japan or South Korea at great profit."

In recent months revenue officials have mounted a number of raids on the offices of Sarawak timber companies.

Malaysia's Securities Commission has frequently said that companies wishing to go public must be prepared to divulge more about their activities.

A lack of transparency in some of Rimbunan Hijau's operations is thought to be one reason for an official delay in approving the Berjaya deal.

"These timber companies have very large resources but if they stay private there is only so much they can do," says Mr Ting of Sarawak Securities.

"They see other Malaysian companies building big conglomerates and want to do the same. The only problem is that a few family secrets have to be let out of the bag."

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CONTRACTS & TENDERS

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Waste Water Treatment Concession

Notice of Request for Qualifications

Notice is given of the intent of the Municipality of Maribor to issue a request for qualifications (RFQ) in connection with the Municipality's waste water treatment project. Companies and consortia interested in qualifying to submit proposals are advised that the RFQ is expected to be available on 1 July 1994. The planned date for submission of qualification documents is 30 days thereafter.

Companies and consortia may request a copy of the RFQ from the Municipality by fax or post, and by making a non-refundable payment of US\$200. The Municipality will acknowledge requests within three days of receipt. It is intended that the RFQ will be sent to requesting companies and consortia as soon as it is available, following receipt of proof of payment. Payments should be made by bank transfer to: Kredita Banka Maribor, acc. no. 51800-620-00015 27620-040-2324/8, SWIFT: KB MA SI 2x.

The concession and project involve: the design, construction, operation, maintenance and financing of a waste water treatment plant and main collector in the Municipality of Maribor.

The Municipality has passed a resolution indicating its intent to grant a concession for the project to a private concessionaire, in accordance with Slovenian law. Issuance of the RFQ and commencement of the tender process requires adoption by the Municipal Assembly of a concession act, which is expected to take place in June 1994.

The Municipality is preparing comprehensive tender documents with assistance from the European Bank for Reconstruction and Development (EBRD). The Municipality has requested the EBRD to consider extending a loan to co-finance the investment.

The tender procedure is open to companies or consortia from any country. Following issuance of the RFQ and evaluation of qualification statements, the Municipality will select a shortlist of qualified companies or consortia, which will then be invited to submit tenders for the concession on the basis of a detailed Request for Proposals.

Waste Water Treatment Concession
Municipal Services Directorate, Municipality of Maribor
Slovenija 46, 62000 Maribor, Republic of Slovenia
Tel: +386-62-200080 Fax: +386-62-224615

CREDIT COMMERCIAL DE FRANCE

FRF 500,000,000 REVERSE FLOATER BONDS DUE 1998

For the period June 3, 1994 to December 5, 1994 the interest rate will be 5.2000% per annum for the interest period 7 June 1994 to 7 September 1994. Interest payable on 7 September 1994 will amount to Yn513,288.80 per Yn1,000,000 note.

Interest will be calculated on the basis of 360 days per year.

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Fading investor interest hopes check rally in bonds

By Tracy Corrigan and Graham Tietz in Frankfurt and Frank McGarry in New York

A nervous tone returned to the European government bond market yesterday, as prices fell back after an early rally.

German bonds ended half a point lower after a strong start, when hopes of returning investor interest faded. Dealers reported a spike of buying on Friday and early yesterday, but buyers disappeared when 10-year bond yields were pushed significantly below 7 per cent once again.

Mr John Hall, an international economist at Swiss Bank Corporation said that "below 7 per cent" for 10-year bonds "is typical of European bond markets" currently, said Mr George Magnus, an international economist at S.G. Warburg.

The German market continues to underperform the US market, with German bonds

now yielding just three basis points below 10-year US Treasuries. "Germany has detached from the US market, but in the wrong direction," said Mr Hall.

A spate of economic data due this week, including figures for GDP and unemployment, is unlikely to provide fresh direction, analysts said.

■ Gilts opened strongly on the back of the recovery at the end of last week but were dragged down in later trading by lack of demand.

"There is no conviction in the market," said Mr Simon Briscoe, UK economist at S.G. Warburg. "There was some buying in the morning but then no follow through."

The fall in German government bonds and data showing a stronger than expected rise

in net lending to UK consumers added to the nervousness.

"The lack of confidence is so widespread that it is unlikely that events this week will provide any support for gilts," said Mr Briscoe.

The political situation is a cloud on the horizon, the trade figures are a concern and there will have to be a marked slowdown in industrial production for those figures to help gilts," he said. The long gilt future was down 1/4 point at 101 1/4 in late trading.

■ French government bonds ended slightly lower yesterday, dragged lower by profit-taking and the decline in Germany.

They marginally outperformed German bonds with a slight narrowing of the spread between the two in favour of French bonds.

Analysts said events in Germany were likely to continue to dominate for the remainder

of the week, although French industrial production and inflation figures due later this week could provide support.

The data could paint a picture of steady, non-inflationary growth which would be positive news," said Mr Julian Jessop, international economist at Midland Global Markets.

■ A 10 basis point cut in the Dutch special advances rate to 5 per cent failed to inspire the Dutch government bond market, which ended slightly lower, undermined by the weakness in the German market.

■ US Treasury bonds yesterday extended Friday's gains with the market growing more confident in the conviction that monetary policy was on hold for the summer.

By midday, the benchmark

30-year government bond was 1/4 higher at 88%, with the yield dropping to 7.203 per cent. At the short end, the two-year note was 1/4 better at 100%, to yield 5.756 per cent.

The fresh improvement gave rise to speculation that the bond market's long slide, triggered by the Federal Reserve's policy shift four months ago, was drawing to an end. Traders were encouraged by a New York Times report which reinforced the view that the series of four interest rate rises this year had succeeded in slowing the economy.

The newspaper quoted three of the Fed's five governors as saying that inflation was now in check. The three officials also said they did not consider Friday's big drop in unemployment as alarming in the context of other statistics pointing to slower economic growth.

Cofide seeks \$100m from sale of shares in fund manager

By Antonia Sharpe

Cofide, the holding company of Mr Carlo de Benedetti, the Italian industrialist, is seeking to raise \$100m through the sale of around 24m shares in Finanza & Futuro, one of the leading mutual fund management groups in Italy.

The institutional offering will close on June 17 and the shares will be priced the day after. The retail offering will open on June 20 and is expected to close within one day.

The shares will be made up of an international and domestic institutional offering of 17m shares and an Italian public offering of 7m shares. An overall option of around 3.6m shares could also be made available in the event of strong demand. A further 1m shares will be offered to employees but this tranche will not be underwritten.

Finanza & Futuro's mutual funds under management

increased by 14 per cent from the end of 1993 to L9.45bn at the end of April, making the group the fourth-largest mutual fund group in Italy with a market share of 7 per cent.

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Lehman Brothers expects the offer to appeal to investors keen to have an exposure to Italy's fast-growing mutual fund industry.

Sweden kicks off string of Canadian dollar issues

By Antonio Sharpe

A strong Canadian government bond market and continued demand from continental retail investors for short-dated Canadian dollar paper prompted a rush of Canadian dollar issues in the eurobond market yesterday.

The Kingdom of Sweden kicked off with a C\$200m offering of 2½-year eurobonds which were priced to yield 7.12% over 10-year bonds, which were priced to yield 22 basis points over the interpolated yield curve, were selling well which reflected the issuer's strong following among retail investors.

BZW said although there had been quite a supply of Canadian dollar issues recently, retail investors were still attracted by the yield pickup of 200 basis points which Canadian treasuries offer over US Treasuries.

This could prompt more issuers

to try to tap this sector. There were rumours yesterday afternoon that Daimler-Benz was looking to raise Canadian dollars.

The Province of Ontario disappointed syndicate managers by opting to raise C\$600m through an issue of 10-year bonds in the domestic market where demand for long-dated maturities is said to be stronger than in the eurobond market.

The issue was priced to yield 58 basis points above 10-year Canadian treasuries which syndicate managers said was in line with the pricing which Ontario would have achieved in the eurobond market.

Mr John Madden, Ontario's assistant deputy minister of treasury, said he was pleased with yesterday's issue but he added that he was continuing to monitor other currencies on a daily basis with a view to

launching a eurobond or global issue. Last week, the province was rumoured to be looking at a euro-yen deal.

■ Moody's, the international credit rating agency, has down-

graded to Ba3 from Ba1 the long-term foreign-currency debt rating of Turkey. The downgrading affects about \$3.5bn of debt securities.

The downgrade reflects

Moody's view that the Turkish economy will have to go through a significant adjustment in order to correct the country's fiscal and financial crises.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fee %	Spred bp	Book runner
US DOLLARS							
US Govt 10yr 2/28	100	1.00	98.25	Apr 2023	unfixed	+270	Lehman Brothers, Int'l.
DXB International***	60	0.80	98.25	Oct 2004	0.30R		DKB International
YEN							
Midlife Investment Bank	15bn	3.125	100.0075R	Jul 1997	0.175R	-	Nikko Europe
America Honda Fin. Corp. etc. *	10bn	1.00	100.20R	Oct 1997	0.20R	-	Merrill Lynch International
CANADIAN DOLLARS							
Kingdom of Sweden***	200	7.75	99.825R	Dec 1998	0.15R	+20 (79.4% -88)	Scotiabank
Canada Gmde&ldq	100	7.00	99.825R	Dec 1997	0.225R	+22 (8)	Deutsche Zosta Wedd
ITALIAN LIRE							
F25	150bn	9.625	99.85R	Jul 1998	0.125R	-	Banca Commerciale Italiana
HONG KONG DOLLARS							
Bank of East Asia*	1bn	0	100.00R	Jul 2001	0.45R	-	Merrill Lynch Secs. Asia
SWISS FRANC							
General Electric Cap.Corp. *	100	5.25	102.00	Jun 1998	standard	-	Merrill Lynch Cap. Mids.

Final term and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Unlisted and private placement. **Floating rate note. ***Semi-annual coupon. R: fixed or prior price; fees are shown at the relevant level of Bmkt Income & Govt. Secs. Launched early May, priced yesterday. (a) Callables on 8.75% at par, c) 3-mth Libor +70bp over 8.75% and 9.5% bid and ask thereafter. (b) Short 1st coupon at 8.75% at par, 3.1% to 8.05 and 3.94% thereafter. (c) Over interpolated yield. (d) Callable on 8.75% at par, 3.74% to 8.75% and 10.1% thereafter.

By midday, the benchmark

European Investment Fund formally set up

European Union finance ministers, meeting as the board of governors of the European Investment Bank, yesterday formally established the Ecu2bn European Investment Fund, AP-DJ reports from Brussels.

EIB said: "Following the preparatory work by the bank, the governors have now formally established the European Investment Fund, clearing the way for the fund to hold its constituent general meeting next week."

The fund, originally agreed at the EU's summit in Edinburgh in December 1992, is designed to provide long-term

loan guarantees to infrastructure projects.

It will also put money into small- and medium-sized companies - marking a first for the EIB which has a 40 per cent stake in the fund. The remaining 60 per cent shareholding is split equally between the EU and a total of 50 banks and financial institutions.

"It will fill a gap in the guarantee arrangements currently available and will help lower the cost of finance," the EIB said. "Such guarantees are increasingly in demand because of the declining availability of public guarantees."

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COMPANY NEWS: UK

Emap in 'aggressive mode' for acquisitions

By Raymond Snoddy

Emap, the media and exhibitions group, is planning to continue its twin policies of launching new magazine titles and expanding through acquisition.

Mr Robin Miller, chief executive, warned yesterday: "We are in an aggressive mode. We think this is a good time to acquire both at home and abroad."

He added that by next June he expected Emap to be a somewhat larger company than it is today.

Mr Miller was speaking as the group announced a pre-tax profit rise of 8 per cent to £45.7m for the year to April 2 - a result that appeared to compare badly with last year's 56 per cent increase to £42.4m.

This year's profit figure came after £9.7m in launch investment - the company launched 23 magazines during the year - and £2.5m in rationalisation costs. The underlying pre-tax figure represented an increase of 20 per cent.

Ms Lorna Tilbian, media analyst at SG Warburg, stockbrokers, gave Emap "full marks" with printing operations the only disappointment. She is sticking with a £55m forecast for the present year.

Mr Derek Terrington, publishing analyst at Kleinwort Benson, raised his forecast from £56m to £59m.

The share price closed 16p higher at 397p yesterday.

Less is expected to be spent on launches this year between £6m and £7m.

Turnover rose 14 per cent to £362m (£318.3m). Earnings per share were 16.8p (17p) and the total dividend is being raised to 8.86p (7.9p) with a recommended final payment of



Robin Miller: good time to expand at home and abroad

Ashley Ashwood

alisation costs.

COMMENT

A superficial glance at the pre-tax profit level would suggest that Emap was starting to go off the boil. The group said yesterday that it was simply getting on with successfully launching new magazines. And although newspaper margins are at the low end by group standards, executives can point to the fact that the Northampton Chronicle won an award as the fastest growing daily last year with the Crawley Observer winning a weekly title. It is just as well that at a final closing price of nearly 93p Emap turned out to be the underbidder to Northcliffe Newspapers for the Nottingham Evening Post titles. Pre-tax profits of £55m will give Emap a prospective p/e of 18.

Newspapers were up 8 per cent to £5.1m and the radio division grew 25 per cent to £1m. These figures exclude rationalisation costs.

Consumer magazines maintained operating profits of £24.9m, but underlying growth was 19 per cent.

Operating profits of business communications, the combined magazine and exhibitions interests, rose by 33 per cent to £14.6m.

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Exceptional puts London & Metropolitan in the black

By Simon Davies

London & Metropolitan, the property developer that was forced into a second financial restructuring last year, yesterday announced a pre-tax profit of £10.2m for 1993, compared with a loss of £19.8m incurred in the previous year.

Profits were buoyed by a £20.2m exceptional item as a result of the restructuring, primarily from the write-back of provisions.

However, the company remains hampered by its sole overseas project, the Pont Royal resort in southern France. L&M made a £7.7m provision against its share of the cost of the project, reflecting disappointing sales during 1993.

L&M is carrying £45m of floating rate debt from its exposure to the French project, and sales last year did not cover interest costs.

In the UK, business was said to be looking better. L&M is project manager for Value Retail, which plans a number of US-style factory outlet shopping centres.

The first, in Bicester, will open in spring 1995 and Mr Harris said it was 25 per cent pre-let, with a further 50 per cent at an advanced stage of negotiation.

L&M has an option to take a 15 per cent stake in the company.

Overall, the group's UK operations contributed operating profits of £2.5m for the year, while interest costs were reduced from £12.4m to £4.75m.

However, its problems are not over. The company was brought to the brink by its involvement in the collapsed consortium to redevelop County Hall, and its joint venture development of Pont Royal remains critical.

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In the UK, business

Smiths pays \$150m for US medical group

By Daniel Green

Smiths Industries, the aerospace and healthcare group is paying \$150m (210m) for Deltec, a US medical equipment manufacturer owned by Pharmacia of Sweden.

The deal will add more than one-third to Smiths' \$161m annual sales in healthcare.

It will also result in a book profit of \$100m (£50.5m) to Pharmacia, which is scheduled to be privatised this month.

Deltec, based in St Paul, Minnesota, makes portable infusion pumps and injection ports. In 1993, it had sales of about \$100m and operating profits of more than \$10m.

The cash will come from Smiths' existing resources. The company will pay \$8m for Deltec's equity and repay inter-company debt of \$35m.

The balance of \$17m will be paid or Deltec's non-US offices change hands.

GrandMet may raise £75m from property disposals

By Vanessa Houlder, Property Correspondent

The upturn in the property market has prompted Grand Metropolitan, the food and drinks group, to put 28 development and investment properties up for sale.

The portfolio, which is expected to fetch about £75m, mostly consists of properties that are no longer used by GrandMet businesses.

The portfolio includes three Oxford Street buildings, including a building occupied by Virgin

gym Megastore, close to Tottenham Court Road, which used to house the Sportsmans Club casino.

Mr Bob Williams, chairman and managing director of Grand Metropolitan Estates said that the sale was in line with the group's strategy of concentrating on its core food and drinks business.

The portfolio covers shops, offices, industrial properties and development sites situated around the country and includes the former Truman Brewery in London's Brick Lane.

Intercare interim results hit by changes in Dutch legislation

By Reg Vaughan

Dutch legislative changes have hit interim profits of Intercare, the US-traded supplier of healthcare products, prompting a 30 per cent fall to 85p in the share price yesterday.

At the pre-tax level, profits declined by 20 per cent to £2.4m in the half year-to-end

April, reflecting a 41 per cent drop in the mobility division contribution to £430,000.

Mr Robert Shepherd, non-executive chairman, said that the legislation changes had led to a downturn in scooter business and trading was likely to continue to be affected in the second half.

The interim dividend is unchanged at 0.7p.

For the group as a whole, he

NEWS DIGEST

UK side helps Acal to £3.65m

Pre-tax profits of Acal, the agent for international manufacturers of electronics and industrial controls, expanded from £3.15m to £3.65m for the year ended March 31, on turnover of £78.5m, against 268.5m.

Earnings per share were up at 16p (14.8p) while a final distribution of 4.5p (4.2p) lifts the total dividend to 6.75p (6.3p).

The directors said that the rise in profits was primarily because of the improvement in the UK, where underlying sales grew more than 25 per cent with profits being doubled.

Restructure surplus lifts UK Land

The inclusion of a £43.7m surplus this time, arising on restructuring meant UK Land, the property, investment and trading group, turned in a pre-tax profit of £45.02m for the year ended March 31. This compared with a £14.5m loss.

The pre-tax figure also included a £361,000 profit (£3.7m loss) on termination of operations. Profit before exceptional items came to £414,000 (£1.3m loss), and earnings per share were 210.13p (£58.99p loss).

Net assets of the company, which owns the Elephant & Castle shopping and office complex in London, came to £10.725m (up £0.6m deficit).

Northern Investors asset value up 13%

Northern Investors, the venture capital investment trust, saw a 12.9 per cent increase in net asset value over the year to March 31, from 204.6p to 333.6p per share.

Although dividend income from the company's venture capital assets increased by 17 per cent, a fall in short-term investment rates led to a decline in total revenue. The pre-tax figure fell from £224,000 to £143,700 and earnings per share from 5.6p to 3.6p.

The proposed final dividend is maintained at 3.6p to give a reduced total of 5.6p.

Prime People loss increases

Prime People, Manchester-based specialist training group, reported a pre-tax loss up from

Blacks Leisure recovers to £928,000

By Caroline Southey

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COMMODITIES AND AGRICULTURE

Oil prices ease back as demand begins to slacken

By Robert Corzine

Oil prices weakened yesterday amid signs that demand from refiners was beginning to ease after a period of strong buying in preparation for the summer holiday season in the US.

The price of light crude futures in New York fell below the psychologically important \$18 per barrel level. That helped to undermine the price of the benchmark Brent Blend,

which was quoted at around \$16.25 a barrel in late London trading, down from its close last Friday of \$16.37.

Earlier the International Energy Agency left unchanged its demand forecasts for the remainder of the year. It was the first time in recent months that it has not revised the forecasts upwards due to strong demand in the US.

But the forecast for full year demand in the industrialised

countries of the Organisation for Economic Co-operation and Development of 39.7m barrels a day remains well above the 35.3m b/d recorded last year, the IEA said.

In its latest monthly oil market report the Paris-based IEA also reported that refining margins in the OECD countries were being eroded as "...average product prices rose less strongly than crude prices" in April and May.

'No ANC threat' to gold rights

By David Blackwell

South Africa's new government will not nationalise the gold mines or threaten mineral rights, according to Mr Marcel Golding, an ANC member of parliament.

Mr Golding, who spent 10 years as a mining union official, told the Financial Times World Gold Conference in London that the damage caused by apartheid should not be underestimated. "The vote will not immediately remove all the warts." But gold mining remained the backbone of the South African economy, employing 380,000 workers. Millions more depended directly or indirectly on the industry.

"The challenge of transition is to ensure that living standards are enhanced," said Mr Golding. While the industry had moved away from confrontation, further co-operation between the government, mining companies and the unions would be needed.

Mr Clem Sunter, chairman of the gold and uranium division of Anglo American Corporation of South Africa, said that in 1985 the company had written a fable tale which it called The High Road, specifying four conditions for the continuing health of the mining sector: a comprehensive negotiated political settlement; free enterprise as the basis of the economy; the devolution of politi-

cal power to local authorities; and the end of economic sanctions against the country. "Our scenario team is cock-a-hoop about recent developments," he told the conference. "So far so good. South Africa has become a very attractive place to invest."

South Africa, still the biggest gold producer in the world with 32 per cent, had produced 44,000 tonnes of gold from the Witwatersrand basin since mining began. Throughout history the world has produced only 120,000 tonnes.

Mr Sunter said that while most of the big fish in the basin had been caught, there were probably a few more. However the depth of the seams meant that it was expensive to establish a new mine.

South Africa's annual output peaked at 1,000 tonnes in 1970. It had been steady at 600 tonnes for the last few years, a level it should be able to maintain for several years. "Virtually the whole industry is viable given the current price and rand-dollar exchange rate."

Mr Chris Stals, governor of the South African Reserve Bank, said that the pressures on foreign reserves during the run-up to the change of government had forced the country to reduce its gold reserves and gold swap portfolio.

The country now intended to rebuild its foreign reserves. "From our own experience with the management of the

country's international reserves in the years of South Africa's economic isolation, we have learned the value of gold in the official foreign reserves for a country in distress. We believe it is also a good investment for a country at peace with the rest of the world."

Mr Jean Zwahlen, a member of the governing board of the Swiss National Bank, said gold was virtually the only asset that did not constitute someone else's liability. The SNB holds 2,600 tonnes, equivalent to 370 grams per capita - the highest level in the world. It was unlikely even in the long-term to sell.

Mr Zwahlen also ruled out more active management of the holdings, describing the return on loans, swaps and options as "low and volatile."

The fear of large-scale net sales by central banks, which together with international institutions have 35,000 tonnes in their vaults, had receded, Mr Zwahlen said.

The conference is being held in London to coincide with the tercentenary of the Bank of England. Mr Rupert Pennant-Rea, deputy governor, suggested that the time was ripe for an annual survey of physical gold trading to provide a figure for the aggregate market turnover. "It is a pity that no data are available for turnover, not just here in London but in all the various physical centres," he said.

Germany's political stone-throwing on BSE

The row over 'mad cow disease' is not based only on concerns for consumers' health

Agriculturally speaking the Germans are living in a glass house but are still throwing stones. For in spite of their continuing refusal to accept that British beef is safe to import - a policy that is widely recognised as being based more on politics than on science - they have animal health problems of their own that are spilling over into other European Union countries.

Bovine spongiform encephalopathy has already been identified in some German, and for that matter French, cattle so it is not exclusively a British problem. The campaign to ban British beef that has been waged by Mr Horst Seehofer, the German health minister, in the face of the acceptance of the Commission and all other EU member nations that it poses no health problem, is embarrassing some of his colleagues and his countrymen.

With a clutch of regional and national elections in various parts of Germany scheduled for the next few months, a political gesture in apparent protection of green-minded German consumers was, perhaps, predictable. But the German agriculture minister, Mr Jochen Borchert, is said to have accepted privately that the new EU measures to ban

FARMER'S VIEWPOINT



By David Richardson

the use of ruminant offal in ruminant animal feeds across the union - which have been in force in the UK, incidentally, since 1988 - "should be sufficient".

Meanwhile the health minister's stance is damaging sales of domestically-reared beef in Germany. Some consumers, apparently, have been put off eating any beef whatever its origin, much to the disgust of German beef farmers and, one suspects, their agriculture minister. The fact that beef exports from Britain to Germany were worth a mere £1m last year may well put the matter into perspective.

Meanwhile Germany has an animal health problem of its own that is threatening to get out of hand. Since last autumn many herds of German pigs have succumbed to classical

swine fever - a highly contagious disease rated in the top category of seriousness by EU veterinarians.

EU policy is to try to eradicate the disease as quickly as possible wherever it breaks out, and to this end, affected herds are slaughtered, the carcasses destroyed to avoid spreading the disease via the meat and compensation paid to the farmers concerned.

During the last quarter of 1993 and the first quarter of this year 1.05m German pigs were slaughtered under the scheme. This was equivalent to 4 per cent of the national herd, about 3.5 per cent of normal German sales of pigs during the period and just under 1 per cent of total EU pig sales.

In Lower Saxony, where the majority of cases occurred, some 12 per cent of the region's pigs were slaughtered, in spite of the slaughtering, however, outbreaks of classical swine fever are still appearing across the region.

There are, perhaps, a number of reasons for this failure to control the disease. One may be that not all infected carcasses have been destroyed. German consumers, faced with rising pork prices, demanded that the meat should not be wasted. In response the authorities decided to render that

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LONDON STOCK EXCHANGE

MARKET REPORT

Dismal volume reflects market uncertainties

By Terry Syland,
UK Stock Market Editor

A nervous and thinly traded session in UK equities yesterday saw share prices close firmly behind early gains in the Dow Industrial Average and in US bonds. The prospect of the elections this week to the European Parliament provided an extra note of uncertainty in markets still concerned over inflation prospects on both sides of the Atlantic.

At mid-session the market was ahead by more than 18 points on the Footsie scale but equities later lost heart when UK government bonds gave back an initial advance. A closing rally, which left the FTSE 100 index at 3,008.4, up 11.6 on the day, owed much to a slow improvement in Federal bonds and to the reading of plus 13 points on

the Dow 'Average' at the London close. The FTSE Mid 250 Index ended 141 ahead at 3,371.4.

But a more revealing image of the trading session was given by the Sma volume of only 486.4m shares, nearly 40 per cent down from Friday's figure and one of the lowest genuine daily totals for the year.

Shares opened nervously as investors waited to see if US Federal bonds would hold the gains scored at the close of trading in New York on Friday. When European bonds, including UK gilts, moved higher, the London stock market responded, but with some caution. Sentiment was encouraged by reports that a New York newspaper had quoted reassuring comments from several Federal Reserve governors on last week's US unemployment data.

Account Dealing Dates		
1st Dealings	May 18	Jun 6
Option Dealings	May 22	Jun 10
Last Dealings	Jun 3	Jul 1
Account Dept:	Jun 12	Jul 11
New time dealings may take place from two business days earlier.		

There was little market response to the announcement of a sharp fall in new UK consumer credit in April, a move which could be seen as favourable for inflation but discouraging for economic recovery prospects.

London continued to edge forward until just before the close for New York to open, when initial uncertainty in Federal bonds was quickly reflected across European

fixed interest markets. A later rally in Federal securities came late in the London trading day.

With both the economic calendar and the company reporting list somewhat light this week, individual features were thin on the ground. Unilever shared fell on reports of an attack on its latest research product by a rival manufacturer.

The general caution ahead of this week's European elections lay particularly heavy across the London stock market because of fears that Mr John Major's ruling Conservative government may come under further pressure in Westminster and in the public opinion polls.

There was further demand yesterday for the utility shares, which have attracted investors looking for stocks which often combine good

current yields and the hope of further dividend rises. The market's dividend optimism was encouraged yesterday by a sharply higher payout from BA, which owns and manages Britain's major airports, and reported buoyant air passenger traffic. Dividend increases have provided support for the market, against the background of other uncertainties.

There were also sharp rises among the banks and financial stocks but trading volumes across the market indicated that genuine investment interest was on hold for the time being. Fund managers, having seen the Footsie succeed in recovering the 3,000 mark, appeared to be waiting for convincing evidence that this level can be held before putting further funds into the London market.

Regional jet talk lifts BAE

Confirmation from British Aerospace that it is in talks with Deutsche Aerospace with a view to taking a minority stake in Dutch regional jet manufacturer Fokker saw BAE shares jump 16 to 458p, a rise consolidated by late-breaking news of a \$230m contract with Colombia to acquire eight RJ100 aircraft.

The talks were greeted with

EQUITY FUTURES AND OPTIONS TRADING

Equity derivatives held a fairly steady course, managing to preserve gains made in the previous session. Christine Buckley writes.

Activity was modest, with just under a third of the 13,111 volume in the June contract on the FTSE 100 attributed to a roll over of positions.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL

PROPERTY - Cont.

SPIRITS, WINES & CIDERS

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

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SCOTTISH EQUIABLE LIFE - Contd.											

SAX ALLIANCE GROUP - Contd.											

ALIED DIAZER INTERNATIONAL ASSETS LTD (2)											

ROYAL SICCIUS LIFE INSURANCE LTD - Contd.											

GULFWEALTH FID MASTERS (GUERNSEY) LTD											

GLASSFIRE INTERNATIONAL MANAGEMENT LTD											

BANK OF IRELAND UNIT MANAGERS LTD - Contd.											

BARCLAYS INTERNATIONAL FUNDS - Contd.											

SAX ALLIANCE GROUP - Contd.											

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SAX ALLIANCE GROUP - Contd.											

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GULFWEALTH FID MASTERS (GUERNSEY) LTD											

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BANK OF IRELAND UNIT MANAGERS LTD - Contd.											

BARCLAYS INTERNATIONAL FUNDS - Contd.											

SAX ALLIANCE GROUP - Contd.											

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MANAGED FUNDS NOTES
 Prices are in price units otherwise indicated and based
 on designated \$ with no prefix refer to U.S. dollars. Yields %
 above for all buying expenses. Prices of certain older issues
 and some other products subject to current price tax on sales. In
 the United States of U.K. funds, a Performance premium
 (minimum 1.5% per annum) is available. In Germany, a DURS
 (Minimum 1.5% per annum) is available. In France, a
 minimum 1.5% per annum is available. A dividend price includes all applicable capital gains
 or losses, a previous day's price, 50% Gains/losses, plus
 Sustained + Yield before January 1st. Ex-cash dividends, +
 Only available to charitable bodies. + Yield comes from
 dividends and names of NAV increases, + ex dividend.
 (*) U.K. funds are not recognised. The regulatory authorities for
 the United States are the Securities and Exchange Commission,
 Ireland: Central Bank of Ireland, Financial Services Authority, Financial
 Supervision Commission, Jersey: Financial Services Department,
 Luxembourg: Institut Monétaire Luxembourgeois.

AMERICA

Pepsico falls after Goldman downgrade

Wall Street

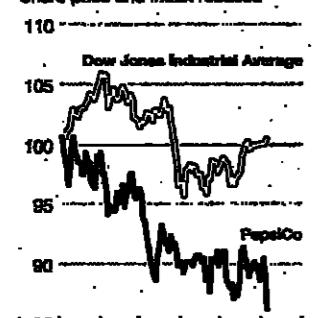
Blue chips rose modestly as renewed optimism over interest rates carried over into the new week, writes *Frank McCourt* in New York.

By 1pm, the Dow Jones Industrial Average was 9.33 better at 3,751.45, but the more broadly based Standard & Poor's 500, up 0.73 at 460.86, barely managed toudge into positive territory.

Activity was sluggish, with 138 new issues traded on the NYSE by early afternoon.

In the secondary markets, the American SE composite

Share price and index released:



inched 0.72 ahead to 442.56 and the Nasdaq composite was up a scant 0.57 at 742.95.

After last week's barrage of data, a blank economic release calendar gave investors time to reflect on supportive comments made by three of the Federal Reserve's five governors. An article in The New York Times quoted the officials as saying that inflation was now in check, suggesting the central bank would not make an early move to lift short-term rates again in the near future.

The prospect of low inflation and a stable monetary policy allowed the bond market to extend a rally that began on Friday with the release of data on May employment conditions. The benchmark 30-year bond was showing improvement by midday, a direction paralleled by most share prices.

Consumer products and food groups were actively traded. Philip Morris added 1% to \$50 and Sara Lee, which announced a worldwide restructuring, was marked up 5% to \$23.

Pepsico dropped 3% to \$34, just above its 52-week low of \$33.50. Goldman Sachs removed

the stock from its recommended list and cut its earnings estimate for the company, based on a disappointing performance by Pepsico's restaurant division.

Merger news was stirring up the communications sector. Sprint was marked down 3% to \$334 after suspending talks on a possible link-up with Electronic Data Systems, the data-processing arm of General Motors. EDS, which are traded as class-B shares of its parent, dipped 3% to \$34.

Meanwhile, Times Mirror

dropped \$3 to \$33 on news that it agreed to sell its cable television operations to Cox Enterprises for \$2.3bn. Cox shares are not publicly traded.

IBM gained 1% to \$32 on reports that its margins had improved recently. Compaq Computer jumped 3% to \$1144 but no fresh developments were driving activity.

In electronics retailing, CompUSA lost 3% or about 22 per cent, to \$93, a new 52-week low for the stock. Janney Montgomery Scott recommended a sell following the company's warning of a possible fourth-quarter loss.

The Nasdaq was held back by weakness in the technology sector. Lotus Development sector gained 1% to \$57 and Oracle fell 1% to \$36.

Canada

Toronto was lower at noon in response to the easier bullion price. The TSE 300 composite index was down 4.70 to 4,276.33 in volume of 21,743 shares. Declines outpaced advances by 27 to 23 with 294 unchanged.

Toronto's precious metals sub-index slipped 2.1 per cent. Placer Dome was off 2% to C\$30.00 and American Barrick fell C\$0.50 to C\$32.

Methanex and Nova Corp. the gas producers, continued to be heavily traded. Methanex receipts were up C\$0.50 to C\$10.50 in volume of 1,563,400 shares while Methanex shares were up C\$0.50 to C\$17.40 in 765,422. Nova Corp was up C\$0.50 to C\$12 in 755,988.

SOUTH AFRICA

Johannesburg was unnerved by gold bullion's dip below \$380 an ounce, while a lack of foreign demand compounded the diminished interest of local investors. The overall index fell 38 to 5,462. Industrials receded 38 to 6,538 and golds gave up 38 to 1,923.

Mexico

Equities gained strongly in early trading, with the IPC index up 24.71, or 1 per cent, at 2,495.65.

Analysts commented that the market was led higher by a good performance from Telmex on Wall Street, the ADRs up 1% at \$63.40 while locally the "A" shares had risen 1.9 per cent and the "L" shares, available to foreigners, 1.7 per cent.

Analysts said that cyclical companies, such as food, retail and clothing concerns,

remained firm throughout the morning, while other blue chips were also active.

Among the main movers, both Telebras and Vale do Rio Doce were up 6 per cent at Cr12.80 and Cr12.80 respectively.

Elsewhere, Petrobras, the oil group, gained 9 per cent at Cr20.50 and Sadiia Concordia, the food group, 7.4 per cent at Cr1.880.

Broker observed that investor sentiment was helped by reports at the weekend that Mr Fernando Henrique Cardoso, the current economy minister and a presidential candidate, had seen an improvement in his standing in opinion polls.

Salomon Brothers, in a recent commentary, noted that the possibility of a victory in the October elections by the left-wing candidate Mr Luiz Inacio da Silva could not be ruled out, but placed the possibility of a Cardoso victory at around 55 per cent.

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